MASC

Manitoba Agricultural Services Corporation

ANNUAL REPORT

LENDING AND INSURANCE – BUILDING A STRONG RURAL MANITOBA

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Frieda Krpan (Vice Chair)
Harry Sotas (Vice Chair)
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Bryan Ferriss

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SENIOR VICE PRESIDENT, PLANNING & LENDING PROGRAMS
Charlene Kibbins

VICE PRESIDENT, INSURANCE OPERATIONS
Craig Thomson

VICE PRESIDENT, LENDING OPERATIONS
Shep Kaastra

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Paul Bonnet

VICE PRESIDENT, FINANCE & ADMINISTRATION
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GENERAL COUNSEL AND MANAGER, LEGAL SERVICES
Lester Vopni

MANAGER, CORPORATE SERVICES
Kim Poschenrieder

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This annual report can be found online at masc.mb.ca
La version française de ce rapport annuel se trouve sur le site Internet masc.mb.ca

Minister of Agriculture, Food and Rural Initiatives

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable John Harvard, P.C., O.M.
Lieutenant-Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I am pleased to submit the Annual Report of the Manitoba Agricultural Services Corporation for the fiscal year ended March 31, 2008.

Yours truly,

Rosann Wowchuk

Rosann Wowchuk
MINISTER

MASC
Manitoba Agricultural Services Corporation

The Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Madam:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Manitoba Agricultural Services Corporation for the fiscal year ended March 31, 2008.

Yours truly,

John S. Plohman

John S. Plohman
CHAIR, BOARD OF DIRECTORS

Chair's Message

Having concluded its second full year of operations, MASC has achieved significant success with amalgamation. The 2007/08 fiscal year saw MASC continue its support for Manitoba's agricultural and rural business sectors, which positively responded to the corporation's lending and insurance programs.

With rising grain and oilseed prices and an unpredictable climate, MASC's insurance products were understandably popular with agricultural producers. In 2007/08, Production Insurance liability (coverage) grew 25% to $1.32 billion. This is the program's second-highest historical level, which is significant given that the total insured acres (nine million) remained roughly the same as previous years. Hail Insurance experienced its highest historical growth, with $477 million in liability (coverage). This growth represented a 31% coverage increase on 25% more acres. At the same time, Wildlife Damage Compensation paid out over $1.9 million on over 2,600 producer claims.

MASC's lending activities remained strong in 2007/08, with loan and guarantee programs accumulating to a total portfolio of $654 million. During the fiscal year, MASC approved $63.2 million in agricultural loans, and provided guarantees for $80.1 million in agricultural loans and $6.9 million in non-agricultural loans. Favourable enhancements to several programs resulted in significant growth, most notably a tripling in the dollar value of Rural Entrepreneur Assistance loans.

Program enhancements arose from MASC's commitment to a strengthened rural Manitoba, feedback meetings with producer groups and assessments of existing program operations. Introducing the Continuous Hail Insurance Option proved remarkably successful, while options within the Bridging Generations Initiative (BGI) were also popular, partly due to enhancements to the Young Farmer Rebate that gave younger producers increased access to financing at attractive terms. Under the BGI, MASC distributed rebates totalling $1.6 million in 2007/08 (a 33% increase from the previous year). The Alternate Energy and Environmental Enhancement loan programs implemented this year will assist rural efforts made towards environmental stewardship and sustainable development for years – and generations – to come. Those future generations will also benefit from the Safe Farms Check Program, a collaborative effort by the Manitoba Government and MASC to help farm operators improve on-farm safety.

MASC also continued in its role as a program delivery agent for governments and other agencies. Alternative Land Use Services (ALUS) supported incentive-based environmental efforts, while the Assiniboine Valley Producers Flood Assistance Program compensated producers affected by flood damage. In addition, MASC continued to administer the Manitoba Government's Farmland School Tax Rebates. MASC also expanded its list of inspection service clients to include Manitoba Livestock Cash Advance Inc. and several private insurance companies.

Responding to difficult times in the livestock industry, MASC helped with the design and administration of targeted programs on behalf of the Manitoba Government. The Manitoba Hog Assistance Loan Program was introduced, providing much needed cash flow assistance. Repayment terms for the BSE Recovery Loan Program were amended so producers in good standing could benefit from three years of interest-only payments. MASC also administered the Manitoba Ruminant Assistance Program to help sustain the livestock industry in a time of high feed costs and low market prices.

MASC's commitment to building a strong rural Manitoba through innovative risk management and financial programs depends on superior customer service, innovative products and continual improvements in business efficiency. Building on previous successes, MASC expanded several of its information technology platforms in 2007/08. The Application Information Manager system was completed, facilitating a streamlined electronic lending process at the field and corporate levels. At the same time, the electronic post-harvest claim adjusting system was expanded.

In keeping with responsible governance practices, MASC implemented internal auditing services focused on business process effectiveness. To ensure continued improvements in administrative efficiency, MASC internal auditing staff developed a risk-based process for reviewing MASC operations.

None of the above would be possible without dedicated staff with the knowledge and initiative to implement MASC's vision. In this regard, MASC is an exceptionally rich organization.

We have greatly benefited from the hard work of my fellow board members, one of whom has stepped down after many years of service. MASC extends appreciation to Walter Kolisnyk of Minitonas for his valuable contribution. Our new members, Andrew DeRuyck of Pilot Mound and Bryan Ferriss of Bowsman, are welcomed additions to the board.

Last year also saw changes in MASC's executive management, with the appointments of Shep Kaastra (Vice President, Lending Operations) and Craig Thomson (Vice President, Insurance Operations). MASC welcomes their contributions and looks forward to their continuing achievements.

MASC has created a new strategic plan for 2008/09 to 2010/11, building on our desire for increased efficiency and a deserved confidence in our staff. As a relatively young corporation, MASC is still realizing the potential of its collective resources. The new strategic plan – still firmly committed to supporting the sustainable development of rural Manitoba – points us in the right direction.

In closing, I want to thank MASC's staff, our executive management, my fellow board members, and the Minister for their dedicated work on behalf of Manitoba's producers. It was a year of growth, streamlining and success, but our focus always held firmly on the needs of our clients in rural Manitoba.

Manitoba's producers place significant confidence in us, and on behalf of everyone at MASC, I would like to thank them for their continued support. Our most valued possession is the knowledge we have served them well.

John S. Plohman
Chair

BOARD OF DIRECTORS (L TO R)

Back Row: Sandy Yanick, Frank Fiarchuk, Andrew DeRuyck, Bryan Ferriss, Wilfred Harder, Carol Masse

Front Row: Frieda Krjan, John Plohman, Harry Sotas

EXECUTIVE MANAGEMENT (L TO R)

Back Row: Paul Bonnet, Jim Lewis, Shep Kaastra, Craig Thomson, Lester Vopni

Front Row: Kim Poschenrieder, Neil Hamilton, Charlene Kibbins

Vision

MASC will strengthen rural Manitoba through innovative risk management and financial programs

Mission

MASC provides risk management solutions for farmers, financing options for agriculture and rural businesses, and other programs and services that support the development and sustainability of rural Manitoba

Goals

- Provide superior customer service and product awareness
- Develop cutting edge products and services
- Continually improve business processes
- Foster employee initiative and career satisfaction

LENDING AND INSURANCE – BUILDING A STRONG RURAL MANITOBA

Strategic Plan Review

MASC's vision of a strong rural Manitoba is achieved through a series of focused goals. The following is a review of MASC's 2007/08 Strategic Implementation Plan and the related achievements.

GOAL: PROVIDE SUPERIOR CUSTOMER SERVICE AND PRODUCT AWARENESS

- Numerous campaigns and media initiatives were undertaken in 2007, including print and radio campaigns, postcard and poster campaigns and MASC's 2008 calendar. This was the first year of a three-year advertising and awareness campaign developed in conjunction with Communications Services Manitoba.

- A redesign of the MASC and Manitoba Management Plus Program websites was initiated to simplify navigation and improve customer service.

- Articles outlining MASC's programs and services were published in producer group and Manitoba Agriculture, Food and Rural Initiatives (MAFRI) newsletters.

- Meetings were held with 15 different producer groups in February and March to gather feedback about MASC programs and services. Suggestions made at these meetings will be incorporated into future program development.

GOAL: DEVELOP CUTTING EDGE PRODUCTS AND SERVICES

- New insurance programs introduced in 2007/08 included: saskatoon and strawberry establishment insurance, providing commercial growers with coverage against the failure of plants to establish due to natural perils; the Pasture Drought Insurance Pilot Program, providing insurance in six test areas against pasture production loss (based on lack of precipitation); and the Young Farmer Crop Plan Credit, whereby farmers under the age of 40 who file a crop plan acceptable to MAFRI can receive a premium credit for their first three years of enrolment in Production Insurance.

- Several enhancements were made to existing insurance programs. The Continuous Hail Insurance Option was added under the Hail Insurance program, allowing producers to automatically renew coverage on all eligible crops without having to complete annual applications. Separate insurance was provided for tall fescue seed and High Erucic Acid Rapeseed (HEAR) under Production Insurance.

- MASC helped MAFRI develop the Safe Farms Check Program, which, on a pilot basis, will provide 60 young farmers with an interest reduction as an incentive to improve farm safety.

- The Bridging Generations Initiative was expanded to increase its effectiveness: the lifetime limit for the Young Farmer Rebate was increased from $10,000 to $15,000; the options of 90% financing or five years of interest-only payments were added; and the Management Training Credit was expanded to include a broader range of eligible loans.

- The Alternate Energy Loan and Environmental Enhancement Loan programs were implemented in support of the Manitoba Government's green initiatives.

- An agreement was entered into with Manitoba Livestock Cash Advance Inc. to perform audits for the federal Advance Payments Program. Adjustors were trained to perform Hazard Analysis Critical Control Points (HACCP) audits on non-federally regulated food processing facilities.

- Enhanced analysis tools were added to the Manitoba Management Plus Program website.

- Though not identified in the Strategic Implementation Plan, several programs were introduced in response to challenges faced by Manitoba producers: BSE Recovery Loans were extended, giving clients the option of making interest-only payments for three years; Manitoba Hog Assistance Loans were provided to assist producers facing difficult cash flow situations; and the Manitoba Ruminant Assistance Program was introduced to help sustain Manitoba livestock producers in a period of high feed costs and low market prices.

GOAL: CONTINUALLY IMPROVE BUSINESS PROCESSES

- MASC Online Services was updated to streamline the process of filing Harvested Production Reports online. Over 10% of clients are now using this option.

- Efforts were made to increase the speed of computer networks at several field offices. In addition, changes were made that allow staff access to their software applications and e-mail from any MASC location.

- The computerized system for completing post-harvest claims was expanded. Twenty-five adjustors were trained and subsequently met their target of completing 90% of their claims using the online system. This represents 25% of total claims registered.

- Financial analysis software was implemented, allowing lending representatives to input loan applications at the field level, reducing paperwork and turnaround time.

- MASC auditing staff completed the Internal Audit Plan, and the following actions were undertaken: the premium rate calculation process was reviewed; a corporate-wide risk assessment profile was initiated; and the audit of the Excess Moisture Insurance claim process is ongoing.

- A review of the Board of Directors' functions and processes was undertaken.

GOAL: FOSTER EMPLOYEE INITIATIVE AND CAREER SATISFACTION

- A new employee performance evaluation system was implemented in 2007, which includes a process for tracking and identifying corporate training needs.

- The majority of actions identified by the Staff Feedback Committee and the Internal Communications Committee have been implemented. Among these actions: all divisions now hold regular staff meetings; computer hardware and software have been updated; Executive Management Committee minutes are now available to all staff; staffing actions are quickly communicated; and Corporate Service Standards have been put in place.

Performance Indicators

PRODUCTION INSURANCE

The 2007/08 insured acres of annual crops and forages were unchanged from 2006/07, at nine million acres. It is noted, however, that this total was approximately 300,000 acres below the budgeted amount, partly because producers were unable to seed 133,000 acres due to wet conditions. The average coverage level selected by insured producers in 2007/08 was as budgeted at 75.4%, which was unchanged from 2006/07.

Total liability (coverage) for 2007 was as budgeted at $1.32 billion, up 25% from the previous year. At $73.9 million (8,070 claims), 2007/08 indemnities were significantly below the break-even budgeted amount of $134 million.

HAIL INSURANCE

Participation increased to 4.1 million acres and liability rose to $477 million in 2007/08. These amounts exceeded the target by 0.5 million acres and $77 million in liability. Higher hail losses in 2007/08 resulted in a loss of $2.1 million.

AGRICULTURAL LENDING

During 2007/08, MASC approved 724 loans totalling $63.2 million. Compared to the previous year, this was an increase of 4% in the number of loans and 17% in the value of loans. The 2007/08 actuals were 2% below target for number of loans, and 2% above target for the total loan amount. If it was not for the Manitoba Hog Assistance Loan Program, which was not originally budgeted for, loan amounts would have been below target.

AGRICULTURAL GUARANTEES

A total of 220 guarantees on $57.4 million of loans ($14.4 million of contingent liability) were approved through the Enhanced Diversification Loan Guarantee and Operating Credit Guarantee programs in 2007/08. This is a decrease from 246 guarantees on $83.0 million in loans ($20.8 million of contingent liability) in 2006/07. The target for the two guarantee programs was 245 guarantees for $80 million in loans ($20 million contingent liability). As a result, actuals were 10% below target in terms of the number of loans and 28% below target in terms of the total loan amount. The decrease in guaranteed loans is primarily attributed to a slow down in the hog sector due to economic losses.

The objective of maintaining the volume of Manitoba Livestock Associations Loan Guarantees was exceeded, with approved lending limits increasing by 21% to $22.7 million as of March 31, 2008.

NON-AGRICULTURAL GUARANTEES

Rural Entrepreneur Assistance (REA) program activity increased significantly compared to the previous year. In 2007/08, 63 guarantees on $6.9 million in loans ($5.5 million contingent liability) were approved, compared to 37 guarantees on $2.4 million of loans ($1.9 million contingent liability) in 2006/07. The targets for the year of 55 loans for $4.3 million were exceeded by 15% and 60%, respectively. The dramatic increase in activity is attributed to program enhancements instituted in March 2007.

ADMINISTRATION

MASC's overall administrative expenses for 2007/08 totalled $18.8 million or $1.1 million under budget. This was mainly due to having significantly fewer claims than anticipated, resulting in lower adjusting costs. In addition, higher than normal staff turnover resulted in salary costs lower than the budgeted amount.

Corporate Governance

MANDATE OF THE BOARD

MASC is a Crown corporation of the Manitoba Government, established by *The Manitoba Agricultural Services Corporation Act*. MASC's Board of Directors is comprised of nine directors who are appointed by the Lieutenant-Governor in Council. The Board chair and the vice chairs are similarly appointed. MASC's Board of Directors reports to Manitoba's Agriculture, Food and Rural Initiatives Minister. The Board of Directors sets the long-term goals and strategies of MASC, establishes governance policies and approves programming.

BOARD COMMITTEE STRUCTURE

The function of the Board of Directors is assisted by the work of the following two committees:

BOARD AUDIT AND FINANCE COMMITTEE identifies and minimizes risk to MASC's business operations by reviewing financial reporting, risk management and actuarial functions, and by monitoring corporate integrity and compliance with applicable authorities.

BOARD PLANNING AND PRIORITIES COMMITTEE generally acts in place of the Board on matters that require immediate decisions or actions, and reviews policies as required prior to consideration by the Board.

Administration

MASC has a permanent staff complement of 150, supplemented as required by adjustors and part-time staff. Over 150 adjustors are employed on an as-needed basis. MASC's programs and services are delivered by 19 insurance and 16 lending offices strategically located throughout the province. Insurance and lending operations are based out of Portage la Prairie and Brandon, respectively.

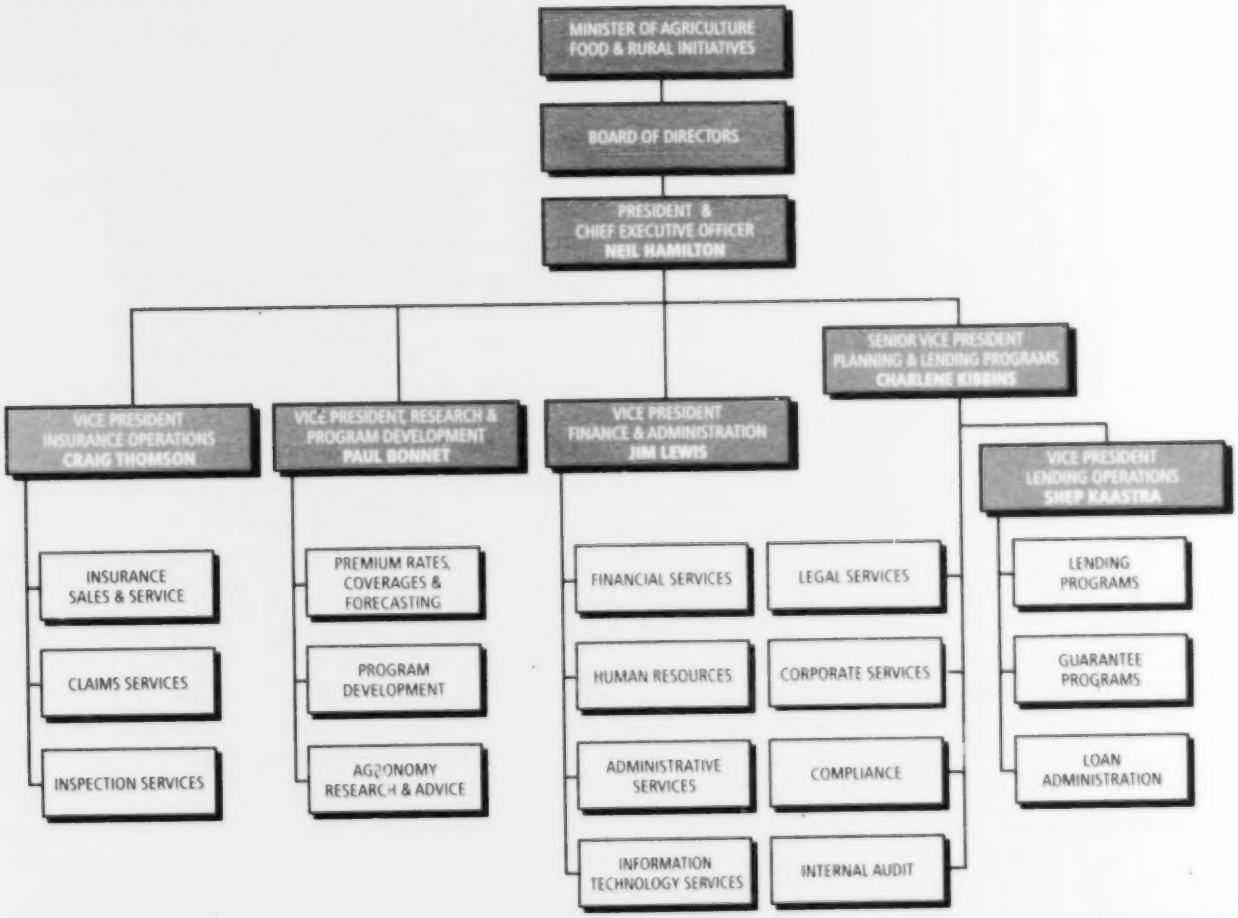
An independent three-member appeal tribunal hears disputes between insured producers and MASC, respecting MASC's assessment of loss or damage. The appeal tribunal's decisions are final and binding on both parties.

MASC fully supports and participates in the Manitoba Government's initiatives under *The Sustainable Development Act*. In its daily operations, MASC encourages activities that reduce, reuse, recycle and recover resources, like using recycled paper and promoting teleconference and webinar meetings. MASC will continue to implement sustainable measures as they become available.

Organization Chart

MANITOBA AGRICULTURAL SERVICES CORPORATION

As of March 31, 2008:



Current Programs

Agriculture plays a major role in Manitoba's economy. Keeping it vital and healthy is a goal MASC is constantly working towards. Through our unique financial and risk management tools, and administrative skills, MASC actively participates in the development, growth and sustainability of rural Manitoba.

MASC Production Insurance and Hail Insurance programs offer protection against losses due to natural perils for a wide range of cereals, oilseeds, special crops and forages. Our financial products have a broad scope, including agricultural loans and loan guarantees, as well as non-agricultural guarantees that assist clients in developing and expanding their rural businesses.

MASC also provides efficient and effective program administration, and has been involved in delivering a variety of ongoing, emergency and ad hoc programming on behalf of the Governments of Manitoba and Canada.

INSURANCE

MASC administers two major insurance programs: Production Insurance and Hail Insurance. This combination allows Manitoba producers to obtain all of their crop production insurance needs from one source. Insurance programs are ongoing, with periodic changes based on input from producers and producer groups, priorities established by MASC's Board of Directors and direction from the provincial and federal governments, as applicable.

PRODUCTION INSURANCE

Production Insurance provides protection against crop production and quality losses caused by natural perils. These include drought, excess moisture (rainfall or flood), frost, hail, fire, excess heat, wind, wildlife, disease and pests. Causes of loss within a producer's control are not covered. Insurance is provided for 60 different crops. Coverage is also provided for forages during the establishment stage and for the inability to seed land in the spring due to wet conditions.

Producers can select coverage levels of 50, 70, or 80%. Individual crops can be insured at different coverage levels or can be excluded from coverage completely. Coverage is based on a producer's expected (probable) yield, multiplied by the selected coverage level, multiplied by the number of insured acres. If harvested production (adjusted for quality loss) falls below coverage, an indemnity equal to the production shortfall multiplied by the insured dollar value is paid. A reseeding benefit is also available to compensate insured producers that need to reseed crops destroyed by an insurable peril.

Producers have the option of insuring all of their eligible crops under Crop Coverage Plus. Under this approach, a loss is only payable if the combined production for all crops falls short of the whole farm guarantee. Depending on the mix of crops grown on a farm, Crop Coverage Plus can provide whole farm coverage of up to 90% for the same premium cost as 80% crop-specific coverage.

Excess Moisture Insurance (EMI) is a basic feature of Manitoba's Production Insurance program. Producers with an active Production Insurance contract automatically receive EMI coverage on all land intended for spring seeding. If producers are unable to seed their land by June 20 due to wet conditions, they receive compensation of $50 per eligible acre, subject

to the applicable deductible (a zero deductible option is also available). To provide additional protection, an EMI buy-up option of $15 per acre is available. The Forage Restoration benefit provides similar protection for tame hay and forage seed crops that are destroyed due to excess spring moisture.

The Fall Frost Insurance Pilot Program is available in four test areas, for producers wanting additional protection against early fall frosts. Under this program, producers are paid an indemnity when, at least two weeks prior to normal for the specified weather station, the temperature drops to -2°C or lower.

Pasture Insurance is available based on the number and type of livestock. A producer's tame hay yield is used as a proxy for estimating pasture grazing capacity. A producer's pasture insurance payment is, based solely on their tame hay payout percentage.

The Pasture Drought Insurance Pilot Program is available in six test areas, for producers wanting protection from loss of pasture production caused by the shortage of rainfall. Under this program, producers are paid an indemnity when the growing season rainfall falls below 80% of normal at a specified weather station.

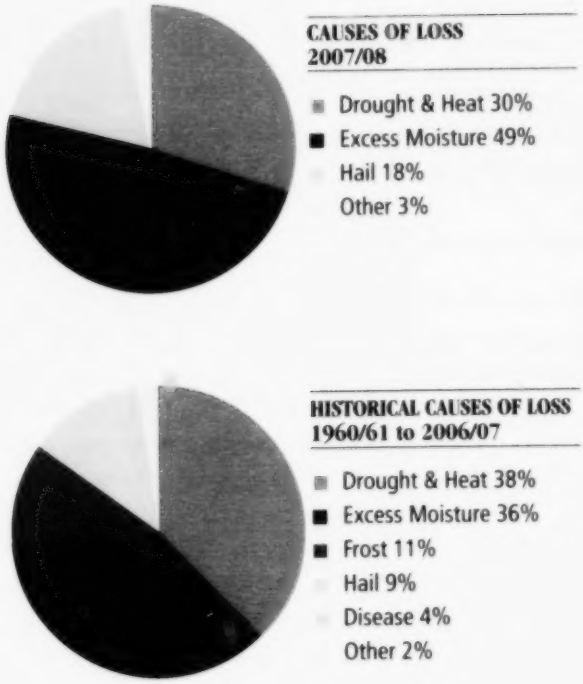
Insurance is also available for the establishment of eligible forage crops, which provides spot-loss compensation when the crop fails to establish in the year of seeding due to natural hazards.

Commercial vegetable producers can choose to protect their crops under Vegetable Acreage Loss Insurance. Under this option, an indemnity is paid on a spot-loss basis when the crop is damaged to the point where it is not worth harvesting.

Commercial fruit producers are now able to protect against the loss of strawberry and saskatoon plants during establishment. Growers receive compensation for plant loss in excess of 20% of the total stand.

For insurance purposes, Manitoba is divided into 15 areas of similar crop production risk. The risk areas form the geographic basis for the determination of insured coverage and premiums. Depending on the crop, the probable yields used to determine coverage are individualized, based on either a producer's yield history relative to the area average, or solely on a producer's individual yield history.

FIGURE 1 - Causes of Loss



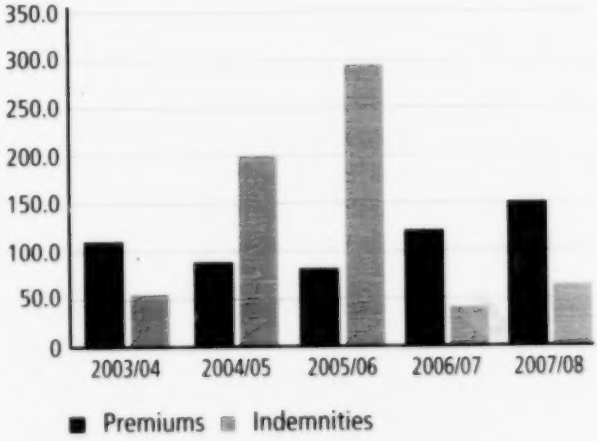
Premium costs are shared between insured producers and the Governments of Canada and Manitoba. For most Production Insurance programs, premiums are shared 40% by producers, 36% by Canada and 24% by Manitoba. Exceptions are: basic Excess Moisture Insurance (EMI), which has no producer premium, with premiums paid 60% by Canada and 40% by Manitoba; the Fall Frost Insurance Pilot Program, with premiums shared 67% by the producer, 20% by Canada and 13% by Manitoba; and the EMI zero deductible option, in which premiums are paid entirely by participating producers. Production Insurance administrative expenses are paid 60% by Canada and 40% by Manitoba.

The Production Insurance loss ratio (loss as a percentage of total premium) for 2007/08 was 49%. Loss ratios by crop are listed in Table 1. In 2007/08, excess moisture accounted for 49% and drought and heat accounted for 30% of losses. Excess Moisture Insurance paid out $4.8 million.

Even though temperature and precipitation over the 2007/08 growing season were about normal, there was considerable variation by region. Most regions experienced excess moisture in the spring and hot, dry conditions during the growing season. As such, excess moisture and drought were the major causes of loss in 2007/08. Despite the generally dry conditions, there was a high incidence of hail storms. Figure 1 compares the major causes of loss in 2007/08 to the historical average. Even considering these variable conditions, the overall crop yielded average to above average, resulting in below average Production Insurance indemnities.

In summary, a total of nine million acres were protected under Production Insurance in 2007/08, which was similar to 2006/07. Total premiums were $151.0 million on $1.32 billion of coverage (liability). Indemnity payments for the year totalled $73.9 million. A summary of Production Insurance premiums and indemnities for the most recent five years is illustrated in Figure 2.

FIGURE 2 - Production Insurance Total Premiums and Indemnities ($ Millions)



It is noted that the estimate of claims payable at March 31, 2007 was overstated by $1.4 million and applied to 2007/08 indemnities, bringing the net indemnities paid for the year to $72.4 million. After accounting for interest revenue of $7.9 million and reinsurance premiums of $24.2 million, the Production Insurance net income for 2007/08 was $62.1 million. This resulted in the Production Insurance reserve increasing from $159.2 million to $221.3 million.

TABLE 1 – Summary of 2007/08 Production Insurance by Crop

CROP	ACRES INSURED	COVERAGE ($000)	TOTAL PREMIUM ($000)	INDEMNITIES ($000)	LOSS RATIO (%)
Red Spring Wheat	1,905,456	$214,140.4	$18,702.4	$8,262.6	44
Durum Wheat	2,311	206.2	20.0	13.3	67
Extra Strong Wheat	5,480	510.6	61.9	66.3	107
Prairie Spring Wheat	29,007	3,263.6	397.2	196.7	50
Hard White Wheat	87,082	10,504.3	1,077.3	350.8	33
Feed Wheat	43,209	4,038.5	515.6	66.5	13
Winter Wheat	425,849	54,341.7	6,126.1	730.2	12
Barley	841,785	84,469.8	7,988.9	7,229.3	91
Oats	916,389	112,054.7	12,034.0	5,246.0	44
Mixed Grain	3,768	207.6	29.4	32.8	112
Fall Rye	42,727	3,242.5	391.1	189.2	48
Triticale	2,001	93.7	9.6	4.3	45
Canola	2,739,391	492,854.9	48,503.5	32,743.7	68
Flax	171,198	15,393.4	1,680.4	854.8	51
Mustard	2,827	321.6	53.8	24.8	46
Oil Sunflowers	62,296	10,020.8	1,317.1	579.9	44
Non Oil Sunflowers	106,658	21,212.3	3,787.7	1,761.1	47
Buckwheat	7,065	545.5	146.8	97.1	66
Grain Corn	165,885	40,951.2	8,434.6	396.6	5
Silage Corn	56,913	14,453.6	1,055.4	1,061.6	101
Potatoes	70,144	92,244.8	6,438.3	147.6	2
Vegetables*	1,140	2,993.7	164.5	66.3	40
Field Peas	91,467	9,463.4	1,035.8	330.8	32
Lentils	172	12.9	4.3	0.3	7
Fababeans	7,892	797.4	143.3	228.9	160
Dry Edible Beans*	170,855	39,884.7	7,290.4	1,724.4	24
Soybeans	204,162	29,423.0	5,797.9	663.1	11
Tame Hay*	466,476	32,283.9	3,601.9	821.8	23
Pasture	–	3,461.0	409.3	122.9	30
Pasture Drought	–	225.4	18.4	–	0
Native Hay	26,816	695.0	160.9	239.7	149
Forage Establishment	130,042	4,525.0	824.5	199.0	24
Strawberry Establishment	–	24.3	1.5	–	0
Saskatoon Establishment	–	25.9	1.4	–	0
Pedigreed Timothy Seed	17,406	1,504.8	247.1	47.7	19
Alfalfa Seed	22,230	3,276.7	686.5	124.8	18
Canaryseed	16,091	2,275.6	321.4	360.0	112
Annual Ryegrass Seed	2,586	319.0	48.3	4.0	8
Perennial Ryegrass Seed	33,782	5,799.0	1,060.6	87.4	8
Proso Millet Seed	5,773	778.4	150.5	128.1	85
Tall Fescue Seed	2,752	433.3	90.7	77.3	85
Hemp Grain	4,462	983.4	173.3	332.1	192
Greenfeed	65,292	4,445.2	608.8	625.1	103
Open Pollinated Corn	578	82.7	16.4	11.4	70
Fall Frost Program	–	348.0	25.5	–	0
Unallocated Adjustments**	–	–	–	2,830.8	–
Subtotal	**8,957,415**	**$1,119,133.4**	**$141,654.3**	**$69,081.1**	**49**
Excess Moisture Insurance	8,168,105	412,480.6	9,360.3	4,769.5	51
TOTAL			**$151,014.6**	**$73,850.6**	**49**

* Dry edible beans include white pea, pinto, black, kidney, cranberry, small red and other dry edible beans.
Tame hay includes alfalfa, alfalfa/grass mixtures, grasses and sweet clover.
Vegetables include carrots, cooking onions, rutabagas and parsnips and the Vegetable Acreage Loss Insurance program.

** Includes accruals for incomplete claims at year end.

HAIL INSURANCE

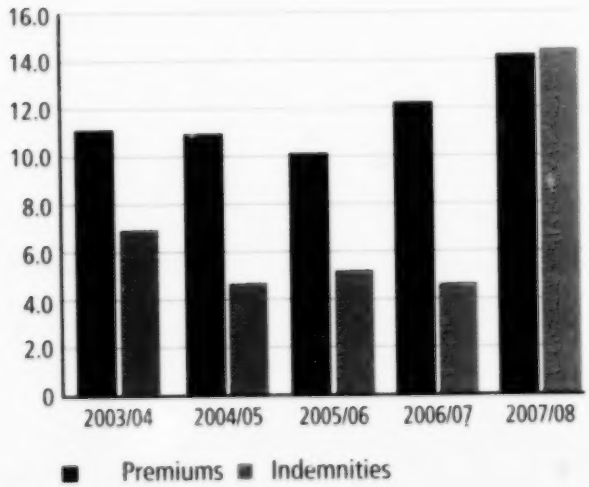
A separate policy covering spot-loss hail damage is available to producers enrolled in Production Insurance. Producer premiums fund all the costs of Hail Insurance, including administrative expenses. Hail premium rates are calculated based on Production Insurance risk areas, rather than by township as is done by private insurers. Coverage can be selected at any time during the growing season and is available in various dollar amounts depending on the crop. Hail Insurance also provides coverage for losses due to accidental fires.

In 2007/08, MASC insured 4.1 million acres, with total coverage of $477 million. Premiums prior to discounts were $14.8 million, with indemnities of $14.4 million. The resulting loss ratio (loss as a percentage of premium) was 97%. Figure 3 provides a summary of Hail Insurance premiums and indemnities over the past five years.

After accounting for interest revenue of $1.4 million, reinsurance premium of $1.0 million and administrative expenses of $2.5 million, Hail Insurance had an operating loss for the year of $2.1 million. As a result, the Hail Insurance reserve declined from $33.8 million to $31.7 million.

The Continuous Hail Insurance Option was added in 2007/08, allowing a producer to automatically insure all eligible crops every year without annually applying. This option was very well accepted, with 1,353 producers (or 30% of hail contracts) enrolling in the first year.

▶ FIGURE 3 - Hail Insurance Premiums and Indemnities ($ Millions)



▶ TABLE 2 – Five Year Statistics – Insurance

	2003/04	2004/05	2005/06	2006/07	2007/08
PRODUCTION INSURANCE					
Number of producer contracts	10,813	10,654	10,395	10,225	9,889
Insured acres (millions)	9.2	8.7	7.9	9.0	9.0
Total coverage (liability) ($ millions)	1,349.4	1,111.2	969.7	1,029.3	1,319.1
Premiums - producers ($ millions)	33.2	30.9	31.4	46.6	58.9
Premiums - total ($ millions)	112.3	85.1	81.1	117.4	151.0
Average coverage level selected (%)	73.6	73.9	74.7	75.4	75.4
Number of claims paid	8,325	13,706	19,186	7,596	8,070
Indemnities paid ($ millions)	55.8	200.4	296.2	42.0	73.9
Income (loss) for the year ($ millions)	47.4	(87.4)	(134.1)	60.4	62.1
Funds retained, end of the year ($ millions)	320.3	233.0	98.8	159.2	221.3
Indemnities to total premium ratio (%)	50	236	365	36	49
Indemnities to coverage ratio (%)	4	18	31	4	6
HAIL INSURANCE					
Number of producer contracts	3,947	3,753	3,425	3,895	4,468
Insured acres (millions)	2.9	2.8	2.6	3.3	4.1
Total coverage (liability) ($ millions)	317.6	309.9	285.1	363.9	476.8
Premiums, prior to discounts ($ millions)	11.5	11.4	10.4	12.5	14.8
Number of claims paid	1,535	1,098	1,241	1,110	2,448
Indemnities paid ($ millions)	6.9	4.8	5.2	4.8	14.4
Income (loss) for the year ($ millions)	2.2	4.4	3.4	6.2	(2.1)
Funds retained, end of the year ($ millions)	19.8	24.2	27.6	33.8	31.7
Indemnities to premium ratio (%)	60	42	50	38	97

Note: The above statistics are based on the insurance crop year and, as such, may not correspond exactly to the 2007/08 financial statements.

LENDING

MASC's lending programs bridge financing gaps that are not adequately filled by other financial institutions, and support Manitoba Government initiatives. MASC works in cooperation with financial institutions to help ensure that Manitoba's agricultural producers and rural businesses have reasonable access to credit.

BRIDGING GENERATIONS INITIATIVE

MASC's primary lending objective is to assist young farmers under the age of 40. In pursuit of this, the Bridging Generations Initiative (BGI) was introduced in 2002/03 as a five-year pilot project to assist in the transfer of farm assets between retiring producers and the next generation. In 2007/08, BGI was significantly expanded and made permanent. In addition to an enhanced Young Farmer Rebate being included in BGI, more flexible financing options were introduced for young farmers and Management Training Credits were broadened to apply to more types of loans.

In 2007/08, MASC issued 274 direct loans to young farmers for $30.2 million, which is about 80% of MASC's total direct loan activity. Enhanced BGI provides the following suite of benefits that can apply to MASC's Direct Loans to young farmers.

YOUNG FARMER REBATE

The Young Farmer Rebate (YFR) reduces the cost of borrowing during the critical start-up stage of an operation. Starting in 2007/08, the annual rebate is 2% on the first $150,000 of principal (up from $100,000). YFR is available for the first five years of the loan, with a lifetime maximum rebate of $15,000 (up from $10,000). In 2007/08, YFR increased by 33% to $1.6 million. The increase was partly due to the retroactive application of the expanded YFR benefits.

FLEXIBLE FINANCING OPTIONS

Young farmers can now choose either: a 90% financing option, which reduces the required down payment; or five years of interest-only payments, which reduces cash flow pressure while an enterprise is being established.

MANAGEMENT TRAINING CREDIT

Young farmers can earn an annual Management Training Credit of 1% of an eligible direct loan's principal amount (to a maximum of $2,500 per year) for the first five years of the loan. Management Training Credits are now available to young farmers with loans for the purchase of land, entire farm operations, breeding livestock or permanent improvements to farm buildings. In 2007/08, Management Training Credits increased by 21% to $136,900.

BRIDGING GENERATIONS MORTGAGE GUARANTEE

Guarantees on mortgages of up to $250,000 are available to retiring farmers who sell their operations to young farmers. MASC guarantees the mortgage payments that are agreed to by the seller and buyer. MASC currently has two Bridging Generations Mortgage Guarantees totalling $196,426.

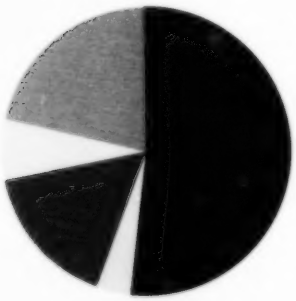
AGRICULTURAL LOANS

MASC provides eligible Manitoba producers with short, intermediate and long-term financing at competitive interest rates, with no prepayment penalties. Clients have the flexibility of locking in an interest rate for the full amortization period, or selecting five-year renewable interest rates. As shown in Table 3, as of March 31, 2008, MASC had 6,327 outstanding agricultural loans, with current balances totalling $318.0 million.

DIRECT LOANS are available for a variety of purposes, such as the purchase of land, construction or renovation of production buildings, purchase of breeding livestock, purchase of quota, debt consolidation and refinancing.

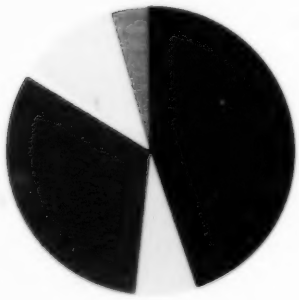
During 2007/08, 348 new loans (which includes loans to young farmers to which BGI benefits can apply) totalling $36.1 million were approved, bringing MASC's total Direct Loan portfolio to $230.1 million (3,924 loans). Figure 4 shows that in 2007/08, Direct Loans were predominantly issued for land/building purchases (52%), refinancing (21%) and debt consolidation (16%).

FIGURE 4 - Purpose of Direct Loans



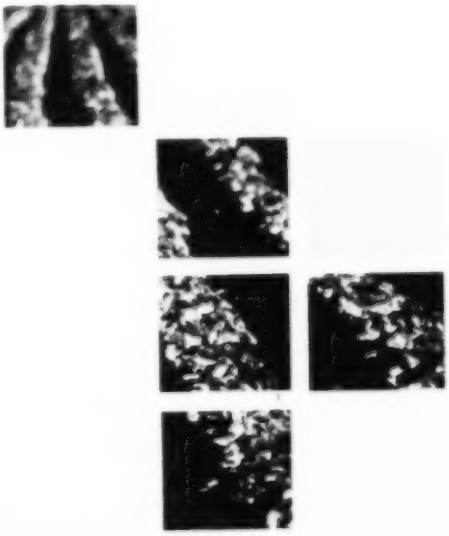
DIRECT LOAN PURPOSE 2007/08

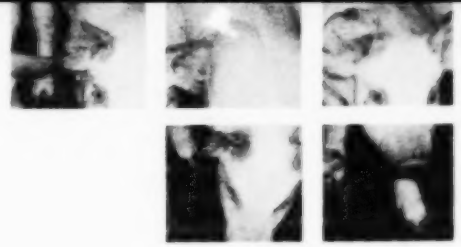
- Land/Building Purchases 52%
- Refinancing 21%
- Debt Consolidation 16%
- Livestock Purchases 7%
- Land/Building Improvements 4%



HISTORICAL DIRECT LOAN PURPOSE 2002/03 to 2006/07

- Land/Building Purchases 45%
- Debt Consolidation 32%
- Livestock Purchases 11%
- Land/Building Improvements 7%
- Refinancing 4%
- Other 1%





ENVIRONMENTAL ENHANCEMENT LOANS were introduced in 2007 to provide financial assistance to producers modifying their operations or management practices to become more environmentally sustainable. In the introductory year, five Environmental Enhancement Loans totalling $0.2 million were issued.

ALTERNATE ENERGY LOANS were introduced in 2007 to provide financing for smaller-scale production of ethanol, bio-diesel, and energy generation from alternative sources including wind power. A number of projects are under discussion.

STOCKER LOANS provide short-term financing for the purchase of feeder cattle, or to cover the cost associated with producers retaining their own cattle for feeding. During 2007/08, MASC approved 290 Stocker Loans for $17.1 million covering 37,197 head of cattle.

COMPREHENSIVE REFINANCING LOANS provide assistance to existing MASC clients who are in financial difficulty. The interest rate for the first five years of the loan is set at one-half a percentage point below MASC's prevailing five-year rate. In 2007/08, MASC approved 49 Comprehensive Refinancing Loans totalling $3.7 million, bringing the total associated loan portfolio to $14.2 million (174 loans).

MANITOBA HOG ASSISTANCE LOANS were introduced in February 2008 to provide weanling and slaughter hog producers with cash flow assistance for production losses on sales made between October 2007 and May 2008. Producers are able to borrow up to $10 per weanling and $35 per slaughter hog sold during the eligible period. Loans are available up to a maximum of $2.5 million with an eight-year term. In 2007/08, 32 loans were approved for $6.1 million.

BSE RECOVERY LOANS were introduced in August 2003 to provide financial assistance to Manitoba ruminant producers suffering the economic impact of Bovine Spongiform Encephalopathy (BSE). Part 1 of the program offered two-year loans of up to $50,000 at a reduced interest rate. Most Part 1 loans have been rolled into Part 2 loans with terms of either five or 10 years. An additional $25,000 was available under Part 2, bringing the maximum loan to $75,000. In February 2008, a three-year deferral of principal payments was offered to clients who had a BSE Recovery Loan in good standing. Since the start of the program, 1,815 BSE Recovery Loans have been approved for $70.2 million. As of March 31, 2008, the portfolio was $48.5 million (1,435 loans) consisting of $3.1 million in Part 1 loans and $45.4 million in Part 2 loans.

▶ TABLE 3 – Agricultural Loans

	APPROVALS 2006/07		APPROVALS 2007/08		OUTSTANDING PORTFOLIO AS OF MARCH 31, 2008	
	NO.	MILLIONS	NO.	MILLIONS	NO.	MILLIONS
Direct Loans	326	$ 29.5	348	$ 36.1	3,924	$230.4
Environmental Enhancement Loans	-	-	5	0.2	5	0.2
Alternate Energy Loans	-	-	-	-	-	-
Stocker Loans	332	21.1	290	17.1	344	15.8
Comprehensive Refinancing Loans	31	3.4	49	3.7	174	14.2
Manitoba Hog Assistance Loans	-	-	32	6.1	32	5.2
BSE Recovery Loans (1)	5	0.1	-	-	1,435	48.5
Enhanced Flood Proofing Assistance Loans (1)	-	-	-	-	207	0.5
Producer Recovery Loans (1)	-	-	-	-	206	3.2
TOTAL LOANS	694	$54.1	724	$63.2	6,327	$318.0

(1) Prior programming for which outstanding loans are still being administered by MASC.

PROPERTY MANAGEMENT

MASC acquires title to property as a result of debt settlement negotiations and foreclosure proceedings. MASC's policy is to return the property to the producer, wherever possible, by either selling or leasing. During 2007/08, MASC did not acquire any property and sold 649 acres, leaving an inventory of 4,796 acres as of March 31, 2008. This is down 12% from the 5,445 acres that MASC held in inventory at the end of 2006/07.

AGRICULTURAL LOAN GUARANTEES

MASC is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with credit unions, caisse populaires and chartered banks. These partnerships provide agricultural producers with access to credit where it otherwise would not exist, due to factors such as insufficient equity, insufficient security or an unproven project proposal. MASC's guarantees encourage participation in areas that private lenders generally consider to be higher risk. As shown in Table 4, as of March 31, 2008, MASC had outstanding guarantees of $82 million on 428 loans with original principal amounts totalling $328 million.

ENHANCED DIVERSIFICATION LOAN GUARANTEES assist producers and agricultural enterprises in diversifying their operations and/or adding value to agricultural commodities. MASC provides a 25% guarantee of the principal amount of the loan from a participating lender. There is no maximum guarantee. In 2007/08, MASC approved 22 guarantees on loans of $19.1 million. As of March 31, 2008, MASC had 215 active guarantees, with original loan amounts totalling $264.5 million.

OPERATING CREDIT GUARANTEES assist producers in obtaining operating lines of credit with reasonable terms. MASC's 25% guarantee makes operating lines of credit available that otherwise would not be offered by private sector lenders. In 2007/08, MASC provided 198 Operating Credit Guarantees on lines of credit totalling $38.3 million. As of March 31, 2008, MASC had 203 active guarantees on lines of credit totalling $40.8 million.

MANITOBA LIVESTOCK ASSOCIATIONS LOAN GUARANTEES provide producers who are members of livestock associations with the benefit of volume purchases of cattle and financing costs. MASC guarantees 25% of a financial institution's loan to a livestock association. The guarantee limit is $1.25 million per livestock association, with a maximum loan of $5 million. As of March 31, 2008, MASC provided guarantees to 10 associations (with a total of 128 active members), for a total potential loan amount of $22.7 million.

▶ TABLE 4 – Agricultural Loan Guarantees

	APPROVALS 2006/07		APPROVALS 2007/08		OUTSTANDING PORTFOLIO[2] AS OF MARCH 31, 2008		OUTSTANDING GUARANTEE AMOUNT[3] AS OF MARCH 31, 2008
	NO.	MILLIONS	NO.	MILLIONS	NO.	MILLIONS	MILLIONS
Enhanced Diversification Loan Guarantees [1]	36	$40.9	22	$19.1	215	$264.5	$66.1
Operating Credit Guarantees	210	42.1	198	38.3	203	40.8	10.2
Manitoba Livestock Associations Loan Guarantees	11	18.7	10	22.7	10	22.7	5.7
TOTAL GUARANTEES	**257**	**$101.7**	**230**	**$80.1**	**428**	**$328.0**	**$82.0**

(1) Outstanding loans from the original Diversification Loan Guarantee program are included.

(2) Represents the original loan amounts that were guaranteed under the program and remain in place as of March 31, 2008.

(3) MASC's contingent liability is 25% of the original loan amounts.

NON-AGRICULTURAL LOAN GUARANTEES

By working in partnership with private lenders, MASC is able to provide opportunities for rural businesses and help community development and economic growth. As shown in Table 5, as of March 31, 2008, MASC had outstanding guarantees of $7.3 million on 151 loans.

RURAL ENTREPRENEUR ASSISTANCE (REA) is MASC's only non-agricultural loan guarantee program. REA provides a guarantee of up to 80% on loans provided by financial institutions to full-time, small and home-based businesses in rural Manitoba. The business loans that are guaranteed through REA are limited to $200,000. During 2007/08, MASC approved 63 REA guarantees on loans totalling $6.9 million, which is almost triple the loan amount for 2006/07.

It is noted that when REA administration was transferred to MASC in 2005/06, the Manitoba Government agreed to retain the contingent liability associated with existing and future REA loan guarantees.

TABLE 5 – Non-Agricultural Loan Guarantees

	APPROVALS 2006/07		APPROVALS 2007/08		OUTSTANDING PORTFOLIO[1] AS OF MARCH 31, 2008		OUTSTANDING GUARANTEE AMOUNT[2] AS OF MARCH 31, 2008
	NO.	MILLIONS	NO.	MILLIONS	NO.	MILLIONS	MILLIONS
Rural Entrepreneur Assistance	37	$2.4	63	$6.9	151	$8.2	$7.3

(1) Represents the outstanding amount of loans issued by participating financial institutions resulting from guarantees administered by MASC.

(2) The Manitoba Government's contingent liability is 80% of the lesser of the original loan amount or the actual amount owing.

TABLE 6 – Agricultural Lending Activity by Sector – as of March 31, 2008

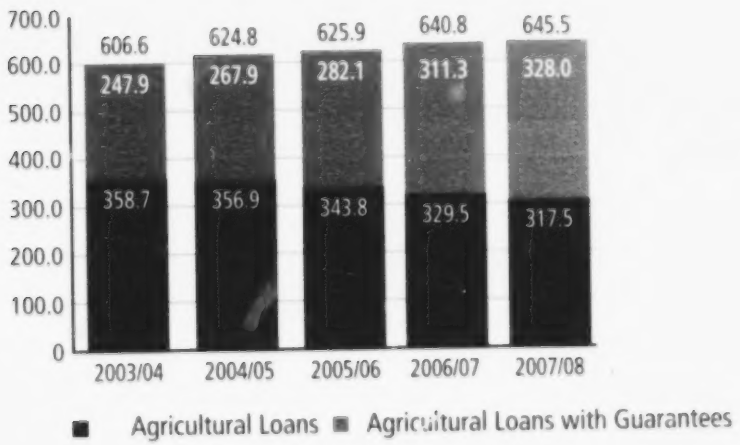
PRIMARY ENTERPRISE	AGRICULTURAL LOANS	AGRICULTURAL LOAN GUARANTEES			TOTAL OF ALL PROGRAMS
		MANITOBA LIVESTOCK ASSOCIATIONS LOAN GUARANTEES	OPERATING CREDIT GUARANTEES	ENHANCED DIVERSIFICATION LOAN GUARANTEES*	
	%	%	%	%	%
Grains/Oilseeds	43.6	-	48.5	0.0	35.9
Potatoes	0.4	-	12.9	5.4	1.5
Other Crops	3.0	-	5.7	0.5	2.6
Cattle	45.6	100.0	22.7	0.3	38.3
Hogs	4.1	-	6.5	50.6	11.8
Poultry	0.2	-	1.3	7.3	1.4
Dairy	1.2	-	0.5	18.5	4.1
Other	1.9	-	1.9	17.4	4.4
	100.0	100.0	100.0	100.0	100.0
SHARE OF ALL PROGRAMS (%)	**79.5**	**1.4**	**2.6**	**16.5**	**100.0**

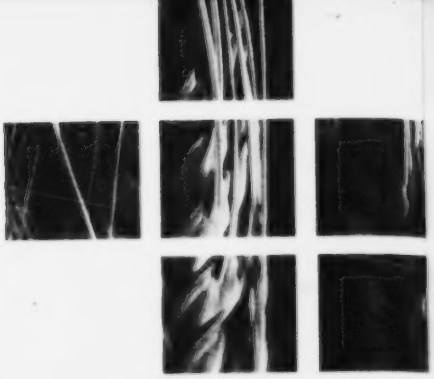
* Previous Diversification Loan Guarantees are included.

Notes:

1. The table does not include Enhanced Flood Proofing Assistance Loans ($0.5 million) and loans guaranteed through Rural Entrepreneur Assistance ($8.2 million).
2. In the case of agricultural loan guarantee programs, this table only includes MASC's contingent liability, rather than the loan activity generated by the guarantees.

FIGURE 5 – Five Year Statistics – Year End Agricultural Lending Totals ($ Millions)





OTHER INITIATIVES

MASC has considerable experience in designing and administering support programs for Manitoba producers. In 2007/08, MASC continued to administer the Wildlife Damage Compensation Program, Farmland School Tax Rebates, the Manitoba Agriculture Weather Service Consortium and the Land Lease Option Program. MASC also administered Alternative Land Use Services (ALUS) in the RM of Blanshard, the Young Farmer Crop Plan Credit, the Assiniboine Valley Producers Flood Assistance Program and promoted the Safe Farms Check Program. In addition, MASC offered inspection services to a number of outside agencies, including the Canadian Wheat Board, St. Norbert Farmers Market, Prairie Farm Rehabilitation Administration, Manitoba Livestock Cash Advance Inc. and private property/causality insurers.

WILDLIFE DAMAGE COMPENSATION PROGRAM

The Wildlife Damage Compensation Program reduces financial loss suffered by producers due to damage caused by migratory waterfowl, big game and livestock predators. Producers are expected to take reasonable steps to prevent wildlife damage and predator attacks. Compensation is based on 80% of lost production. Program payments and administration are funded 60% by the Government of Canada and 40% by the Province of Manitoba.

Wildlife Damage Compensation payments and the related administrative expenses totalled $2.4 million in 2007/08, an increase of 33% from the previous year. Details of the program are shown in Table 7.

▶ TABLE 7 – Wildlife Damage Compensation

CAUSE OF DAMAGE	NUMBER OF CLAIMS		COMPENSATION (000)		ADMINISTRATION (000)		TOTAL (000)	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
Big Game	542	607	$647.0	$952.0	$173.4	$177.6	$820.4	$1,129.6
Waterfowl	210	258	336.0	490.3	42.4	64.3	378.4	554.6
Livestock Predation	1,458	1,766	432.9	530.9	154.9	164.7	587.8	695.6
TOTAL	**2,210**	**2,631**	**$1,415.9**	**$1,973.2**	**$370.7**	**$406.6**	**$1,786.6**	**$2,379.8**

FARMLAND SCHOOL TAX REBATE

In 2005/06, MASC assumed responsibility for the administration of the Manitoba Government's Farmland School Tax Rebate. For 2007/08, the rebate was increased from 60% to 65% of the school tax paid on Manitoba farmland. Farmland owners have three years to apply for their rebates. Details are provided in Table 8.

▶ TABLE 8 – Farmland School Tax Rebate – As of March 31, 2008

YEAR	REBATE LEVEL	APPLICATIONS PAID	AMOUNTS PAID (MILLIONS)
2005/06	50%	35,890	$18.2
2006/07	60%	34,066	$23.7
2007/08	65%	28,847	$24.3

MANITOBA AGRICULTURE WEATHER SERVICE CONSORTIUM

In 2004/05, MASC (on behalf of Manitoba Agriculture, Food and Rural Initiatives) assumed responsibility for the administration of the Manitoba Agriculture Weather Service Consortium. This project is funded by the Canada-Manitoba Agri-Food Research and Development Initiative. The goal of the project is to establish a network of weather stations that provide online access to weather related databases and products. A total of $216,264 was spent on this program in 2007/08.

ALUS: AN ECOLOGICAL GOODS AND SERVICES RESEARCH PROJECT - MANITOBA

In 2005/06, MASC assumed responsibility for the administration of ALUS. The goal of the project is to test and evaluate the concept of paying producers for land management practices that have been determined to produce or maintain environmental benefits. Funding for producer payments is provided to MASC by the Keystone Agricultural Producers. The original funding sources were the Advancing Canadian Agriculture and Agri-Food program and Delta Waterfowl. A total of $297,957 was spent on producer payments in 2007/08. MASC's administration costs of $23,733 were paid by the Manitoba Government's Covering New Ground program.

ASSINIBOINE VALLEY PRODUCERS FLOOD ASSISTANCE PROGRAM

In May 2007, MASC assumed responsibility of administering the Assiniboine Valley Producers Flood Assistance Program. The goal of the program is to provide compensation payments to producers affected by flooding in 2005, 2006 and 2007 caused by a combination of unexpected rainfall and the operation of the Shellmouth Dam. A total of $1,729,800 in compensation was expensed, including $375,000 for the estimated payments for 2007 losses. A total of $97,015 was charged for administration of the program. All costs are paid by the Manitoba Government.

SAFE FARMS CHECK PROGRAM

In March 2008, MASC, in partnership with Manitoba Agriculture, Food and Rural Initiatives and Manitoba Labour and Immigration, offered a two-year pilot program designed as an incentive to enhance on-farm safety. The program will be limited to 60 participants who are currently enrolled in the Bridging Generations Initiative and are committed to making workplace safety and health improvements on their farm. Participants will be eligible for an interest rate reduction of one percentage point per year on their MASC loan (to an annual maximum of $1,500). All costs are paid by the Manitoba Government.

YOUNG FARMER CROP PLAN CREDIT

In 2007/08, MASC initiated a three-year pilot program to help young farmers (under the age of 40) with an annual credit of $200 against their Production Insurance premium. Participants are required to complete an annual cropping plan that is approved by a Manitoba Agriculture, Food and Rural Initiatives production advisor. In 2007/08, 64 young farmers qualified for total credits of $12,800. All costs are paid by the Manitoba Government.

MANITOBA RUMINANT ASSISTANCE PROGRAM

In March 2008, MASC was given the responsibility for administering the Manitoba Ruminant Assistance Program. The program was designed to help ruminant livestock producers affected by the dramatic rise in feed costs and the decline in market prices due to the appreciation of the Canadian dollar. Eligible producers will receive a direct payment of up to 3% of the higher of their 2005 or 2006 net sales of ruminant livestock. The maximum payment for a producer is capped at $90,000. The Manitoba Government has allocated $14.7 million for program payments and administrative expenses.

INSPECTION SERVICES

MASC supports Manitoba's agricultural sector by providing inspection services at a reasonable cost. In 2007/08, MASC provided forage establishment inspections for the Greencover Canada Program, conducted stored grain audits for cash advances issued by the Canadian Wheat Board and performed field inspections in support of the ALUS program. Production losses were assessed on windmill construction sites and certificates of local production were issued to vendors at the St. Norbert Farmers Market. Private sector property insurers also hired MASC to conduct third-party loss appraisals on farms covered by their policies. MASC staff also conducted livestock inspections for the Manitoba Livestock Cash Advance program and were trained in Hazard Analysis Critical Control Points (HACCP) standards to qualify to inspect certified HACCP plans for Manitoba processing plants.

LAND LEASE OPTION PROGRAM

Under the Land Lease Option Program, farmland was purchased from willing sellers for the purpose of leasing it to qualifying producers on a long-term basis. Lessees are given the option of purchasing the property. As at March 31, 2008, 13 long-term leases on 4,160 acres remain in place.

MASC

Manitoba Agricultural Services Corporation

FINANCIAL STATEMENTS

MASC
Manitoba Agricultural Services Corporation

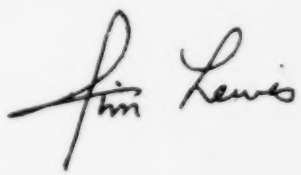
RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Manitoba Agricultural Services Corporation is responsible for the integrity, objectivity and reliability of the financial statements, accompanying notes and other financial information in the annual report.

Management maintains internal control systems to ensure that transactions are accurately recorded in accordance with established policies and procedures. In addition, certain best estimates and judgements have been made based on a careful assessment of the available information.

The financial statements and accompanying notes are examined by the Auditor General for Manitoba, whose opinion is included here. The Auditor General has access to MASC's Board of Directors, with or without management present, to discuss the results of their audit and the quality of MASC's financial reporting.

Neil Hamilton
PRESIDENT & CHIEF EXECUTIVE OFFICER



Jim Lewis
VICE PRESIDENT, FINANCE & ADMINISTRATION

JUNE 16, 2008

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Board of Directors of Manitoba Agricultural Services Corporation

We have audited the balance sheet of the Manitoba Agricultural Services Corporation as at March 31, 2008, the statements of operations and funds retained and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Winnipeg, Manitoba
June 16, 2008

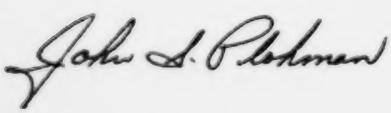
500 - 330 Portage avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

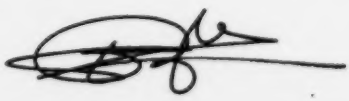
Balance Sheet

As at March 31, 2008 (in thousands)

	2008	2007
ASSETS:		
Cash	$ 1,619	$ 1,538
Investments *(Notes 4(B) & 8)*	268,158	193,454
Accounts receivable *(Note 9)*	37,973	22,696
Prepaid expenses	100	93
Loans receivable *(Note 10)*	288,769	300,419
Real estate *(Note 13)*	758	806
Property and equipment *(Note 14)*	290	305
	$ 597,667	$ 519,311
LIABILITIES AND FUNDS RETAINED:		
Reinsurance premiums payable *(Notes 15 & 16)*	$ 4,435	$ 3,056
Claims payable *(Note 17)*	29,230	12,411
Accounts payable and accrued liabilities *(Note 18)*	12,588	11,138
Provision for losses on guaranteed loans *(Note 24)*	13,240	12,244
Advances from the Province of Manitoba *(Note 20)*	324,698	326,478
Deferred revenue *(Note 21)*	290	305
Funds retained	213,186	153,679
	$ 597,667	$ 519,311

Approved by the Board:





John S. Plohman
CHAIR

Frieda Krpan
VICE CHAIR

Statement of Operations and Funds Retained

For the year ended March 31, 2008 (in thousands)

	2008	2007
REVENUE:		
Insurance premiums *(Note 4(l))*		
Insured producers	$ 73,235	$ 58,848
Government of Canada	55,225	42,507
Province of Manitoba	36,815	28,336
	165,275	129,691
Interest from loans	20,453	20,444
Other contributions - Government of Canada	7,609	6,894
Other contributions - Province of Manitoba	55,392	36,301
Investment income	10,449	6,782
Real estate and other income	681	1,040
Reinsurance recoveries *(Notes 15 & 16)*	-	118
Total revenue	259,859	201,270
EXPENSES:		
Insurance indemnities and compensation payments *(Note 22)*	88,829	50,494
Reinsurance premiums *(Notes 15 & 16)*	25,232	18,118
Interest on borrowed funds	18,574	19,621
Bad debt and guaranteed loan loss expense *(Notes 12 & 24)*	1,247	1,688
Young farmer incentives	1,737	1,338
Loan interest concession *(Note 11)*	221	-
Farmland school tax rebate payments	29,199	26,034
Other program payments	16,528	294
Administrative expenses *(Schedule 1)*	18,785	17,695
Total expenses	200,352	135,282
Net income and comprehensive income for the year	59,507	65,988
Funds retained, beginning of year	153,679	87,691
Funds retained, end of year (Schedule 2)	$ 213,186	$ 153,679

Statement of Cash Flows

For the year ended March 31, 2008 (in thousands)

	2008	2007
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income for the year		
Income before investment income	$ 49,058	$ 59,206
Investment income	10,449	6,782
	59,507	65,988
Items not involving cash		
Change in provisions and allowances	465	478
Loan interest concession	221	-
Gain on disposal of real estate	(70)	(145)
Amortization of property and equipment	95	122
Loans disbursed	(69,541)	(69,215)
Loan principal received	81,372	51,704
Changes in:		
Accounts receivable	(15,331)	(9,042)
Prepaid expenses	(7)	33
Loans receivable	353	32,223
Reinsurance premiums payable	1,379	1,957
Claims payable	16,819	(6,921)
Accounts payable and accrued liabilities	1,266	(205)
Deferred revenue	(15)	(46)
Cash provided by operating activities	76,513	66,931
Investing activities		
Sale (purchase) of investments	27,771	(14,326)
Net proceeds on sale of real estate	132	543
Purchase of property & equipment	(80)	(76)
Cash provided by (used for) investing activities	27,823	(13,859)
Financing activities		
Advances repaid to the Province of Manitoba	(1,780)	(16,342)
Cash used for financing activities	(1,780)	(16,342)
Net increase in cash and equivalents	102,556	36,730
Cash and equivalents, beginning of the year	93,988	57,258
Cash and equivalents, end of year	$ 196,544	$ 93,988
Cash and equivalents comprised of the following:		
Investments	$ 268,158	$ 193,454
Investments with terms greater than 90 days	(73,233)	(101,004)
Investments with terms of 90 days or less	194,925	92,450
Cash	1,619	1,538
	$ 196,544	$ 93,988

Notes to Financial Statements

as at March 31, 2008 (tabular amounts in thousands of dollars)

1. AUTHORITY AND PURPOSE

The Manitoba Agricultural Credit Corporation (MACC) was established under *The Agricultural Credit Corporation Act*. The Manitoba Crop Insurance Corporation (MCIC) was established under *The Crop Insurance Act*. As a result of the proclamation of *The Manitoba Agricultural Services Corporation Act*, C.C.S.M. c.A25 on September 1, 2005, MACC and MCIC were amalgamated to form the Manitoba Agricultural Services Corporation (MASC) and the legislation establishing the former corporations was repealed.

MASC provides lending, insurance and other programs and services. Its core programs include direct loans to agriculture producers, loan guarantees, Production Insurance and Hail Insurance. MASC also delivers the Wildlife Damage Compensation Program, Farmland School Tax Rebate Program and other programs and services for the agricultural industry.

2. BASIS OF REPORTING

MASC's financial statements are presented in accordance with Canadian generally accepted accounting principles.

3. CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2007, MASC has adopted the following recommendations of the CICA Handbook:

(A) SECTION 1506, ACCOUNTING CHANGES:

This revised standard requires that (i) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information; (ii) changes in accounting policies are accompanied with restated amounts for prior periods and reasons for the change; and (iii) for changes in estimates, the nature and amount of the change should be disclosed. MASC has not made any voluntary change in accounting principles since the adoption of the revised standard.

(B) SECTION 3855, FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT:

This section describes the standards for recognizing and measuring financial instruments and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets or liabilities held for trading, financial assets available-for-sale and derivative financial instruments, whether part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

(C) SECTION 3861, FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION:

This section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

(D) SECTION 1530, COMPREHENSIVE INCOME:

Section 1530 requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. MASC has not recognized any adjustments through other comprehensive income for the year ended March 31, 2008. Because MASC has no items related to other comprehensive income, comprehensive income is equivalent to net income.

(E) SECTION 3251, EQUITY:

This section establishes standards for the presentation of net assets and changes in net assets during the reporting period.

These new standards were applied retroactively as of April 1, 2007 without restatement of the prior year's figures. MASC's net assets as of April 1, 2007 were not affected by these new standards.

4. SIGNIFICANT ACCOUNTING POLICIES

(A) PROGRAMS

Under the provisions of the applicable legislation, MASC delivers lending, insurance and other programs and services. For financial accounting purposes, all programs are treated as separate operations and are accounted for separately.

(B) INVESTMENTS

Funds in excess of operational needs are invested with the Province of Manitoba, in accordance with Section 52(1) of *The Manitoba Agricultural Services Corporation Act*.

(C) PROPERTY AND EQUIPMENT AND AMORTIZATION

Property and equipment are reported at cost less accumulated amortization. Property and equipment are amortized on a straight-line basis over their estimated useful life, as follows:

Furniture and Equipment	10 years
Computer Hardware	4 years
Computer Software	4 years
Major Software Development	8 years
Leasehold Improvements	remaining term of lease

(D) PENSIONS

MASC employees are pensionable under *The Civil Service Superannuation Act*.

Effective April 1, 1998, the former Manitoba Crop Insurance Corporation (MCIC) became a fully funded matching employer. Upon the formation of the Manitoba Agricultural Services Corporation (MASC), the current pension obligations to the Civil Service Superannuation Board (CSSB) for former MCIC employees continued to be matched by MASC.

Prior to amalgamation, the Manitoba Agricultural Credit Corporation (MACC) did not match employees' current service contributions, and instead contributed 50% of the pension disbursements made to retired employees. Effective September 1, 2005, the current pension contributions for former MACC employees are matched on a go-forward basis. MASC accrues a provision for its liability for the pensionable service that was earned prior to the amalgamation on September 1, 2005, that includes future cost of living adjustments based on an actuarial valuation. The Province of Manitoba provides funding for this liability (Note 9). Details of the provision for the pension benefits are outlined in Note 19. Actuarial gains (losses) are recorded in the statement of operations in the fiscal year the actuarial valuation is completed.

As a matching employer, MASC discharges its pension liability on a current basis and, therefore, has no additional pension obligation. MASC's matching contributions for 2007/08 totalled $563,735.

(E) VACATION AND SEVERANCE PAY

MASC employees are entitled to vacation and severance pay in accordance with the terms of the Collective Agreements and corporate policy. The severance pay liability is recorded based on an actuarial valuation and vacation pay is recorded based on MASC's best estimate. Actuarial gains (losses) on severance pay are recorded in the statement of operations in the fiscal year the actuarial valuation is completed.

(F) PROVISION FOR LOSSES ON LOANS AND LOAN GUARANTEES

The provision for impaired loans is determined annually, through a review of individual accounts. The provision represents management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectability of principal or interest, specific provisions are established for individual accounts. These accounts are valued at the lower of their recorded value or the estimated net realizable value of the security held for the accounts. In addition to the provision for impaired loans identified on an individual loan basis, MASC establishes a further provision representing management's best estimate of additional probable losses in the entire loan portfolio.

The provisions for losses on loan guarantees are determined annually by a review of each guarantee program. The provisions represent management's best estimate of probable claims against the guarantees. Such provisions are intended to cover principal, accrued and unpaid interest, and any additional recoverable amounts.

Current year provisions for impaired loans and loan guarantees are charged as expenses to bad debt and guaranteed loan loss expense. Actual accounts that have been written off are charged to the appropriate provision.

(G) REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

Real estate that is acquired through foreclosure and voluntary transfers of titles in the settlement of loans is recorded at the lower of the recorded value of the loan or the appraised value of the real estate at acquisition date. Real estate is reported net of a provision for a decline in real estate values.

(H) REAL ESTATE UNDER LONG-TERM LEASE

Real estate that was acquired for the purpose of providing long-term leases to producers through the land lease program is recorded at cost.

(I) PREMIUMS AND GOVERNMENT CONTRIBUTIONS

MASC recognizes as revenue all premiums earned on insurance policies in force during the year.

The Canada-Manitoba Production Insurance Agreement, which is Annex B to the Canada-Manitoba Implementation Agreement, provides for the cost sharing of premiums under the Production Insurance Program. Premiums for crop loss are shared between insured producers (40%), the Government of Canada (36%) and the Province of Manitoba (24%).

In addition to the general premiums sharing provisions noted above, alternative premium sharing arrangements apply for basic Excess Moisture Insurance (EMI), the EMI Zero Deductible Option and the Fall Frost Insurance Pilot Program.

(J) ADMINISTRATIVE EXPENSES

Identifiable administrative expenses for all of the programs administered by MASC are charged directly to the specific program. Where the direct charging of administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by MASC's Board of Directors.

The federal-provincial agreement relating to Production Insurance referred to in Section (I) of this note, stipulates that administrative expenses, net of any administrative revenues, will be shared by the Government of Canada (60%) and the Province of Manitoba (40%).

(K) USE OF ESTIMATES

Preparing MASC's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities as of the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. Significant estimates are made by management in the following balances: accounts receivable, loans receivable, claims payable, accounts payable and the provision for losses on guaranteed loans.

(L) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and MASC's designation of such instruments.

CLASSIFICATIONS

MASC has designated its financial instruments as follows:

Held for trading:	Cash
Held to maturity:	Investments
Loans and receivables:	Accounts receivable
	Loans receivable
Other liabilities:	Reinsurance premiums payable
	Claims payable
	Accounts payable and accrued liabilities
	Advances from the Province of Manitoba
	Provision for losses on guaranteed loans

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

MASC uses the effective interest method to recognize interest income or expense which includes discounts recognized on loans with concessionary terms and transaction costs related to all financial instruments are expensed as incurred.

RISK MANAGEMENT

Credit risk:

MASC provides direct loans to clients in the normal course of operations. Credit reviews of individual clients are carried out on a continuing basis, thereby providing estimated provisions for contingent credit losses.

Interest rate risk:

Interest rate risk is the risk to MASC's earnings that arises from fluctuations in interest rates. During the year ended March 31, 2008, MASC did not utilize derivative financial instruments to reduce its exposure to interest rate risk. MASC borrows funds from the Province of Manitoba at fixed rates and normally lends those funds at 1.5% above the borrowing rate, therefore, cash flow exposure is not significant.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain financial instruments are valued at cost, with adjustments for any applicable allowance for doubtful accounts. This applies to investments, accounts receivable (excluding receivables related to pension and severance pay liabilities), reinsurance premiums payable, claims payable and accrued liabilities (excluding pension and severance pay liabilities). Cost approximates fair market value for these instruments due to their short-term nature.

The carrying value of MASC's pension and severance pay liabilities are based on actuarial valuations adjusted over time for the effect of interest and payouts since the valuations were performed. The carrying value of the liabilities approximates their fair values as the interest component is comparable to current market rates. The carrying value of the related pension and severance receivables approximates their fair value as their carrying value is derived from the related pension and severance liabilities.

Fair value of loans receivable, provision for losses on guaranteed loans, and advances from the province are disclosed in their respective notes.

(M) FUTURE ACCOUNTING CHANGES

In December 2006, the CICA issued Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments - Presentation; and Section 1535, Capital Disclosures. All three sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, MASC will adopt the new standards for its fiscal year beginning April 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. MASC is currently assessing the impact of these new standards on its financial statements.

5. WILDLIFE DAMAGE COMPENSATION PROGRAM

MASC administers the Wildlife Damage Compensation Program, which compensates producers for 80% of damage to agricultural crops and products caused by waterfowl or wildlife (big game animals), and the injury or death of domestic livestock caused by natural predators. Compensation and all administrative expenses are shared by the Government of Canada (60%) and the Province of Manitoba (40%).

6. FARMLAND SCHOOL TAX REBATE PROGRAM

In April 2005, MASC became responsible for the administration of the Farmland School Tax Rebate Program. The purpose of the program is to assist Manitoba farmland owners by providing a rebate of 65% of the school tax paid on farmland in 2007. The rebate was increased from 60% in 2006. The program provides a three-year time frame for claiming rebates. Recorded rebate payments of $29,199,000 include a provision of $4,894,000 for 2007 rebates that had not yet been applied for. In addition, a provision of $4,824,000 remains for 2005 and 2006 rebates. The Province of Manitoba pays for the full cost of the Farmland School Tax Rebate Program.

7. OTHER PROGRAMS

MANITOBA AGRICULTURE WEATHER SERVICE CONSORTIUM

In March 2005, MASC became responsible for the administration of the Manitoba Agriculture Weather Service Consortium. The purpose of this initiative is to establish a network of weather stations, which will provide the regional weather data that is required to forecast pest and plant disease outbreaks and moisture conditions for crop production. A total of $216,000 in administrative expenses was incurred for the year ended March 31, 2008 (2007 - $129,000). Funding for this project was provided to MASC by the Manitoba Association of Agricultural Societies.

ALUS – AN ECOLOGICAL GOODS AND SERVICES RESEARCH PROJECT – MANITOBA

In December 2005, MASC became responsible for the administration of ALUS: An Ecological Goods and Services Research Project - Manitoba in the RM of Blanshard (ALUS stands for Alternative Land Use Services). The goal of this project is to test and evaluate the concept of paying producers for specified land management practices that are determined to produce/maintain environmental benefits. Producers' payments totalled $298,000 (2007 - $294,000) and was provided to MASC by the Keystone Agricultural Producers (KAP). A total of $24,000 in administrative expenses was incurred for the year ended March 31, 2008 (2007 - $82,000), which was funded by the Province of Manitoba's Covering New Ground Initiative.

ASSINIBOINE VALLEY PRODUCERS FLOOD ASSISTANCE PROGRAM

In May 2007, MASC became responsible for the administration of the Assiniboine Valley Producers Flood Assistance Program. The program is funded by the Government of Manitoba for the purpose of providing assistance to agricultural producers along the Assiniboine River between the Shellmouth Reservoir and Brandon. The program covers flood losses in 2005, 2006 and 2007 due to the interaction of unexpected rainfall and the operation of the Shellmouth dam. Producer compensation totalled $1,730,000, which includes a $446,000 provision for outstanding payments. Administrative expenses totalled $97,000 for the year ended March 31, 2008.

MANITOBA RUMINANT ASSISTANCE PROGRAM

In March 2008, MASC became responsible for the administration of the Manitoba Ruminant Assistance Program. The program is being funded by the Government of Manitoba for the purpose of providing short-term financial assistance to Manitoba ruminant producers to help sustain the livestock industry during a period of high feed costs and weak market prices. Program payments are based on the higher of a participant's 2005 or 2006 eligible net sales of ruminant livestock. A provision of $14,700,000 has been set up, comprised of $14,500,000 for program payments and $200,000 for administrative expenses.

8. INVESTMENTS

MASC's investments as of March 31, 2008 consist of the following:

INVESTMENT MATURITY TERMS	AVERAGE INTEREST RATE	LENDING PROGRAMS	PRODUCTION INSURANCE PROGRAM	HAIL INSURANCE PROGRAM	FARMLAND SCHOOL TAX REBATE PROGRAM	2008 TOTAL	2007 TOTAL
1 year	3.291%	$ 9,000	223,707	20,903	4,548	$ 258,158	$ 175,754
2 years	3.992%	-	-	2,700	-	2,700	10,800
3 years	3.874%	-	-	2,700	-	2,700	2,700
4 years	4.180%	-	-	1,500	-	1,500	2,700
5 years	4.474%	-	-	3,100	-	3,100	1,500
	3.322%	$ 9,000	223,707	30,903	4,548	$ 268,158	$ 193,454

9. ACCOUNTS RECEIVABLE

MASC's accounts receivable as of March 31, 2008 consist of the following:

	LENDING PROGRAMS	PRODUCTION INSURANCE PROGRAM	HAIL INSURANCE PROGRAM	FARMLAND SCHOOL TAX REBATE PROGRAM	OTHER PROGRAMS	2008 TOTAL	2007 TOTAL
Insured producers	$ -	1,628	509	1	-	$ 2,138	$ 3,456
Government of Canada	-	4,437	-	-	254	4,691	5,999
Province of Manitoba	6,212	2,927	-	5,312	15,224	29,675	11,645
Accrued investment interest	1	883	316	25	-	1,225	1,215
Reinsurance receivable	-	149	-	-	-	149	269
Other	36	59	-	-	-	95	112
	$ 6,249	10,083	825	5,338	15,478	$ 37,973	$ 22,696

RECEIVABLES FROM THE PROVINCE OF MANITOBA RELATED TO:

Pension liability

The Province of Manitoba has accepted responsibility for funding the Manitoba Agricultural Services Corporation's pension liability (for pensionable service earned by the employees of the former Manitoba Agricultural Credit Corporation prior to amalgamation on September 1, 2005) and related expense which includes an interest component. The Manitoba Agricultural Services Corporation has therefore recorded a receivable from the Province equal to the estimated value of its actuarially determined pension liability of $6,212,000 as at March 31, 2008 (2007 - $6,115,000), and has recorded revenue for 2007/08 equal to its pension expense of $428,000 (2007 - $415,000). The Province makes payments on the receivable when it is determined that the cash is required to discharge the related pension obligation.

The carrying value of the receivable approximates its fair value as the interest component described above is comparable to current market rates.

Vacation pay liability

The amount recorded as a receivable from the Province for vacation pay expenses was initially based on the estimated value of the corresponding liability as at March 31, 1999. Subsequent to March 31, 1999, the Province has included in its ongoing annual funding to the Manitoba Agricultural Services Corporation, an amount equal to its share of the current year's expense for vacation pay entitlements. As of March 31, 2008 the receivable for vacation pay liabilities was $169,000 (2007 - $169,000).

Severance pay liability

The amount recorded as a receivable from the Province for severance pay was initially based on the estimated value of the corresponding actuarially determined liability for severance pay as at March 31, 1999. Subsequent to March 31, 1999, the Province provides annual grant funding for its share of the severance expense. As a result the change in the severance liability each year is fully funded. The interest component related to the receivable is reflected in the funding for severance pay expense. The receivable for severance pay will be paid by the Province when it is determined that the cash is required to discharge the related severance pay liabilities. As of March 31, 2008 the receivable for severance pay liabilities was $429,000 (2007 - $429,000).

The carrying value of the receivable approximates its fair value as the interest component described above is comparable to current market rates.

10. LOANS RECEIVABLE

MASC's loans receivable as of March 31, 2008 consist of the following:

		2008	2007
Amounts are due over the following terms:			
1 year	Accrued interest	$ 9,215	$ 9,882
	Arrears	13,957	16,668
	Prepayments	(8,888)	(9,880)
	Regular instalments	41,728	43,221
		56,012	59,891
2 years	Regular instalments	30,429	30,710
3 years	Regular instalments	29,603	31,221
4 years	Regular instalments	20,460	29,512
5 years	Regular instalments	19,205	23,847
Over 5 years	Regular instalments	162,277	154,989
		317,986	330,170
Less: Unamortized discount on loans with concessionary interest rates (Note 11)		221	-
		317,765	330,170
Less: Provisions for impaired loans (Note 12)		28,996	29,751
		$ 288,769	$ 300,419

The approximate fair value of loans receivable, before any discounts or provisions for impaired loans are applied, as of March 31, 2008 is $331,760,000 (2007– $320,380,000). Fair value is based on expected future cash flows discounted by current interest rates for loans with similar terms and credit risk.

A portion of the loans receivable will be paid through funding for the Young Farmer Rebate (YFR) program that is provided by the Province of Manitoba. Clients earn the rebate at the same frequency as the contractual payment term and the rebate is applied in equal payments over the first five years of the loan. Over the next five years, YFR will provide approximately $5.8 million in payments towards the loan receivable balance.

TERMS OF LOANS RECEIVABLE

All loans have fixed rates, with an average yield breakdown as follows:

	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS*	TOTAL LOANS
4.0% and lower	$ -	6,689	$ 6,689
4.01% to 5.0%	1,338	4,132	5,470
5.01% to 6.0%	17,773	38,884	56,657
6.01% to 7.0%	163,063	21,220	184,283
7.01% to 8.0%	60,328	573	60,901
More than 8.0%	3,947	39	3,986
	$ 246,449	71,537	$ 317,986

*Includes Manitoba Hog Assistance, BSE Recovery, Producer Recovery, Flood Proofing Assistance and Comprehensive Refinancing loans.

Loans maturities are as follows:

	AVERAGE INTEREST RATE	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS*	TOTAL LOANS
Less than 5 years	6.178%	$ 43,115	$ 42,876	$ 85,991
5 to 10 years	6.299%	54,367	20,645	75,012
10 to 15 years	6.758%	72,935	5,315	78,250
15 to 20 years	6.712%	56,081	2,113	58,194
20 to 25 years	6.669%	19,951	588	20,539
	6.465%	$ 246,449	$ 71,537	$ 317,986

*Includes Manitoba Hog Assistance, BSE Recovery, Producer Recovery, Flood Proofing Assistance and Comprehensive Refinancing loans.

11. UNAMORTIZED DISCOUNT ON LOANS WITH CONCESSIONARY INTEREST

Loans receivable includes the Manitoba Hog Assistance Program loan portfolio, implemented in February 2008, which has an interest concession for the first three years of the eight-year amortization period. The first year interest rate is 2.25% (with an additional 1% discount for young farmers under 40 years of age), rising to 4.5% (with the additional 1% discount applicable carried forward) for the next two years. The portfolio balance was $5,193,000 on March 31, 2008 and a present value discount of $221,000 for the loan interest concessions was applied, reducing the carrying value of the portfolio to $4,972,000. Given that these loans were disbursed in March 2008, there has been no amortization of this discount as at March 31, 2008.

12. PROVISIONS FOR IMPAIRED LOANS

	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS*	TOTAL LOANS
Beginning provision balance	$ 15,515	$ 14,236	$ 29,751
Loans written off	(301)	(469)	(770)
Provision (recovery)	(264)	279	15
Ending provision balance	$ 14,950	$ 14,046	$ 28,996

*Includes Manitoba Hog Assistance, BSE Recovery, Producer Recovery, Flood Proofing Assistance and Comprehensive Refinancing loans.

13. REAL ESTATE

Based on a review of the current real estate portfolio, MASC determined that a provision for future declines in real estate values is not necessary (2007 - $14,000 provision).

	2008	2007
Real estate book value	$ 758	$ 820
Provision for decline in real estate value	-	(14)
	$ 758	$ 806

14. PROPERTY AND EQUIPMENT

	2008		2007	
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Furniture and equipment	$ 344	$ 194	$ 359	$ 177
Computer hardware	325	242	356	318
Computer software	189	132	182	105
Major software development	2,907	2,907	2,907	2,907
Leasehold improvements	298	298	298	290
	$ 4,063	$ 3,773	$ 4,102	$ 3,797
Net book value		$ 290		$ 305

15. REINSURANCE – PRODUCTION INSURANCE PROGRAM

In accordance with the terms of the reinsurance agreement between the Government of Canada and the Province of Manitoba, the two levels of government maintain separate reinsurance accounts. MASC pays reinsurance premiums to the Crop Reinsurance Fund of Canada for Manitoba, and to the Crop Reinsurance Fund of Manitoba, based on the amount of premiums collected and the cumulative financial balance of the Production Insurance Program.

When indemnities paid to insured producers exceed the funds retained by MASC, after accounting for private sector reinsurance recoveries, transfers are made from the reinsurance funds to MASC. Interest is not credited or charged to the respective reinsurance funds by the Government of Canada or the Province of Manitoba. Surpluses in the Crop Reinsurance Fund of Canada for Manitoba and the Crop Reinsurance Fund of Manitoba are held by the Government of Canada and the Province of Manitoba, respectively.

	CROP REINSURANCE FUND OF CANADA FOR MANITOBA		CROP REINSURANCE FUND OF MANITOBA	
	2008	2007	2008	2007
Opening surplus (deficit) .	$ 1,419	$ 832	$ 23,438	$ 22,851
Current year premium contributions (net)*	755	587	755	587
Net book value	$ 2,174	$ 1,419	$ 24,193	$ 23,438

*Current year reinsurance premium contributions are shown net of an allowance for uncollectible accounts.

For 2007/08, MASC entered into a one-year private sector reinsurance agreement for the Production Insurance Program in addition to the financial protection provided by the federal-provincial reinsurance agreement noted above. Through the private sector reinsurance agreement, 25 reinsuring companies assumed 90% of losses (including a deemed loss adjustment expense) from 15.0% to 27.5% (2007 – 15.0% to 25.0%) of Production Insurance liability (coverage). Reinsurance premiums were $22,701,000 (2007 – $16,063,000). There were no private sector reinsurance recoveries (2007 - $118,000).

16. REINSURANCE – HAIL INSURANCE PROGRAM

Starting in 2007/08, MASC entered into a three-year private sector reinsurance agreement for the Hail Insurance Program. Through the agreement, eight reinsuring companies assume 80% of hail insurance losses (including actual loss adjustment expenses) from 4.25% to 7.00% of hail insurance liability (coverage). In 2006/07, 90% of losses (including actual loss adjustment expenses) from 125% to 200% of gross premium were reinsured. Reinsurance premiums were $1,022,000 (2007 - $881,000). There were no reinsurance recoveries in 2008 (2007 – nil).

17. CLAIMS PAYABLE

Claims payable of $29,230,000 (2007 - $12,411,000) includes: a provision of $3,184,000 (2007 - $3,900,000) for the Production Insurance Program, which represents the liability for unpaid claims and the over-winter deterioration of unharvested crops; a provision of $9,823,000 (2007 - $7,447,000) for outstanding Farmland School Tax Rebate payments; a provision of $276,000 (2007 - $274,000) for the Wildlife Damage Compensation Program, a provision of $446,000 for the Assiniboine Valley Producers Flood Assistance Program compensation and $14,500,000 for the Manitoba Ruminant Assistance Program payments. The balance represents actual claims payable.

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable at March 31, 2008 include the following:

	LENDING PROGRAMS	PRODUCTION INSURANCE PROGRAM	WILDLIFE DAMAGE COMPENSATION PROGRAM	OTHER PROGRAMS	2008 TOTAL	2007 TOTAL
Province of Manitoba	$ -	1,623	-	-	$ 1,623	$ 1,326
Accrued vacation pay	-	917	-	-	917	863
Provision for pension obligations *(Note 19)*	6,212	13	-	-	6,225	6,124
Provision for severance obligations	-	1,656	-	-	1,656	1,386
Other	431	1,444	15	277	2,167	1,439
	$ 6,643	5,653	15	277	$ 12,588	$ 11,138

19. PROVISION FOR EMPLOYEE PENSION BENEFITS

MASC employees are eligible for defined benefit pensions under *The Civil Service Superannuation Act*. As outlined in Note 4(D), MASC contributes 50% of the pension disbursements made to retired employees of the former Manitoba Agricultural Credit Corporation (MACC) for service up to September 1, 2005. Additionally, MASC has a pension liability for employees whose earnings are out of the scope of the Civil Service Superannuation Fund plan.

Actuarial valuations are to be carried out every three years to provide an estimate of the accrued liability for unfunded pension benefits. An actuarial valuation of the pension obligations as at December 31, 2004 was conducted by Ellement & Ellement. The key actuarial assumptions were a rate of return of 6.50% (2001 – 6.75%), 2.50% inflation (2001 – 2.75%), salary rate increases of 3.25% (2001 – 3.50%) and post retirement indexing at two-thirds of the inflation rate. The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to March 31, 2008 using a formula provided by the actuary. The following table provides the calculation of the liability for pension benefits of $6,225,000 (2007 - $6,124,000):

	2008	2007
Accrued pension liability – beginning of year	$ 6,124	$ 5,976
Benefits accrued	3	(37)
Interest accrued on benefits	429	418
Benefits paid	(331)	(233)
Accrued pension liability – end of year	$ 6,225	$ 6,124

20. ADVANCES FROM THE PROVINCE OF MANITOBA

Following practices established by the Province of Manitoba, MASC must repay advances according to the amortization schedule or be subject to a prepayment penalty. The prepayment penalty is based on the net present value of the future cash flows of the loan being prepaid less the net present value of a loan with the same terms, except having an interest rate of a semi-annual, non-callable Province of Manitoba bond with the same term to maturity.

Advances are repayable in equal annual blended installments of principal and interest, with interest rates ranging from 3% to 8%. The average interest rate of the entire portfolio at March 31, 2008 was 5.394% (2007 - 5.656%).

MATURITIES OF PRINCIPAL OVER THE FOLLOWING TERMS	2008	2007
1 year	$ 63,566	$ 61,010
2 years	41,455	39,204
3 years	38,327	36,548
4 years	38,106	33,095
5 years	33,800	32,654
More than 5 years	109,444	123,967
	$ 324,698	$ 326,478

The approximate fair value of advances from the Province of Manitoba at March 31, 2008 is $347,863,000 (2007 - $339,611,000). Fair values for the advances from the Province of Manitoba are based on the net present value of expected future cash flows, discounted by current interest rates for loans with similar terms and credit risk.

21. DEFERRED REVENUE

Deferred revenue represents administrative subsidies provided by the Government of Canada and the Province of Manitoba and is used to acquire property and equipment. Deferred revenue is recognized as revenue when amortization is recorded on property and equipment.

22. INDEMNITIES

Production Insurance indemnities of $72,433,000 (2007 - $44,323,000) represent $73,851,000 for the 2007/08 crop year and a reduction of $1,418,000 as a result of an excess in the estimate of claims payable at March 31, 2007.

23. CONTRACTUAL OBLIGATIONS

MASC has entered into a number of long-term lease agreements. The minimum payments under these leases are as follows:

YEAR ENDING MARCH 31	LEASE AGREEMENT AMOUNTS
2009	$ 143
2010	112
2011	46
2012	6
2013 and beyond	-
	$ 307

24. CONTINGENCIES

(A) Contingent liabilities and the corresponding provisions for MASC's loan guarantee programs as of March 31, 2008 are shown below.

	CONTINGENT LIABILITY		PROVISION FOR LOSSES	
	2008	2007	2008	2007
Operating Credit Guarantees	$ 10,197	$ 9,349	$ 1,629	$ 1,502
Manitoba Livestock Associations Loan Guarantees	5,671	4,683	1,418	1,171
Diversification Loan Guarantees	6,245	7,609	1,060	1,141
Enhanced Diversification Loan Guarantees	59,551	56,196	9,133	8,430
	$ 81,664	$ 77,837	$ 13,240	$ 12,244

The approximate fair value of the provision for losses on the loan guarantee programs as of March 31, 2008 was $11,460,000 (2007 - $9,685,000). Fair value is based on expected future cash flows discounted by current rates of return.

The Operating Credit Guarantee Program was introduced on April 1, 2003, replacing the Guaranteed Operating Loan Program. The Operating Credit Guarantee provides the participating lending institution a guarantee of 25% of each individual loan made under this program. The maximum allowable individual loan is $450,000, with $700,000 available for partnerships, corporations and co-operatives.

The Manitoba Livestock Associations Loan Guarantee Program was introduced in 1991. For each association, MASC provides a guarantee to the lending institutions based on 25% of the amount of the loan to a maximum guarantee of $1,250,000.

The Diversification Loan Guarantee Program was introduced in December 1995 to provide guarantees on loans made by participating lenders for diversification or farm value-added activities. Under this program, 25% of the private lender's loan portfolio was guaranteed. The maximum allowable individual loan was $3.0 million.

In 2001, the Enhanced Diversification Loan Guarantee Program replaced the Diversification Loan Guarantee Program. Guarantees are now based on 25% of the original principal amount of each individual loan, with no maximum loan amount.

(B) MASC provides surety bonds for certain agricultural agencies in the amount of $83,130 (2007 - $83,130). No contingency provision is made for these undertakings in the financial statements. Any payments arising from claims under these guarantees will be recorded as an expense in the period that such claims occur.

(C) As at March 31, 2008 MASC had approved but not disbursed loans in the amount of $15,520,963 (2007 - $16,621,358).

(D) Various legal actions for additional indemnity payments have been commenced by insured producers against MASC. The outcome of these claims cannot be determined at this time.

25. ACTUARIAL REVIEW

An actuarial certification of the Production Insurance Program was completed by Tillinghast - Towers Perrin, consulting actuaries, in June 2003. The actuarial review of MASC concludes that the methodologies used to establish the probable yields for insured crops meet the requirements of the federal Crop Insurance Regulation; that the premium rate methodologies are actuarially sound and are sufficient to meet expected claim costs; and that the program meets the financial self-sustaining criteria defined by the Government of Canada.

A new full actuarial certification was completed in March 2008, and will take effect in the 2008/09 crop year. Any new programs or program changes require actuarial review prior to implementation.

26. RELATED PARTY TRANSACTIONS

MASC is related in terms of common ownership to all Province of Manitoba departments, agencies and Crown corporations. MASC enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

Interest earned on investments held by the Province of Manitoba amounted to $10,134,000 (2007 - $6,498,000). Included in accounts receivable (Note 9) is $1,225,000 (2007 - $1,215,000) of accrued interest related to these investments.

27. COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform to the 2008 financial statement presentation.

28. SUBSEQUENT EVENT

The two administration collective agreements between the Manitoba Government and General Employees' Union and MASC expired on March 17, 2006. A new administration collective agreement was ratified by the union membership on May 15, 2008. The new contract spans four years as is effective from March 18, 2006 to March 26, 2010. The general salary increases agreed to are 2.5% for each of the first three years and 2.9% for the final year of the agreement.

The estimated additional expense of $750,000 for the two-year period ended March 31, 2008, net of the estimated contributions from the Province of Manitoba and the Government of Canada of $660,000 will be recorded in the 2008/09 financial statements.

SCHEDULE 1

Schedule of Administrative Expenses

For the year ended March 31, 2008 (in thousands)

	2008	2007
Adjustors' wages, benefits and expenses	$ 4,744	$ 3,476
Advertising	307	225
Amortization expense	94	122
Appeal Tribunal	28	15
Audit fees and legal	229	318
Directors' remuneration and expenses	141	148
Furniture and equipment	116	166
Information technology	638	778
Office rental and utilities	920	925
Other administrative expenses	531	385
Other administrative recoveries	(560)	(490)
Postage	200	183
Printing and office supplies	217	282
Salaries and employee benefits	10,490	10,402
Telephone	216	215
Travel and vehicle expenses	474	545
Total administrative expenses	$ 18,785	$ 17,695
Administrative expenses allocation:		
Lending Programs	$ 4,662	$ 5,086
Production Insurance Program	10,306	9,715
Hail Insurance Program	2,503	1,712
Wildlife Damage Compensation Program	407	371
Farmland School Tax Rebate Program	370	382
Other Programs	537	429
Total administrative expenses	$ 18,785	$ 17,695

SCHEDULE 2

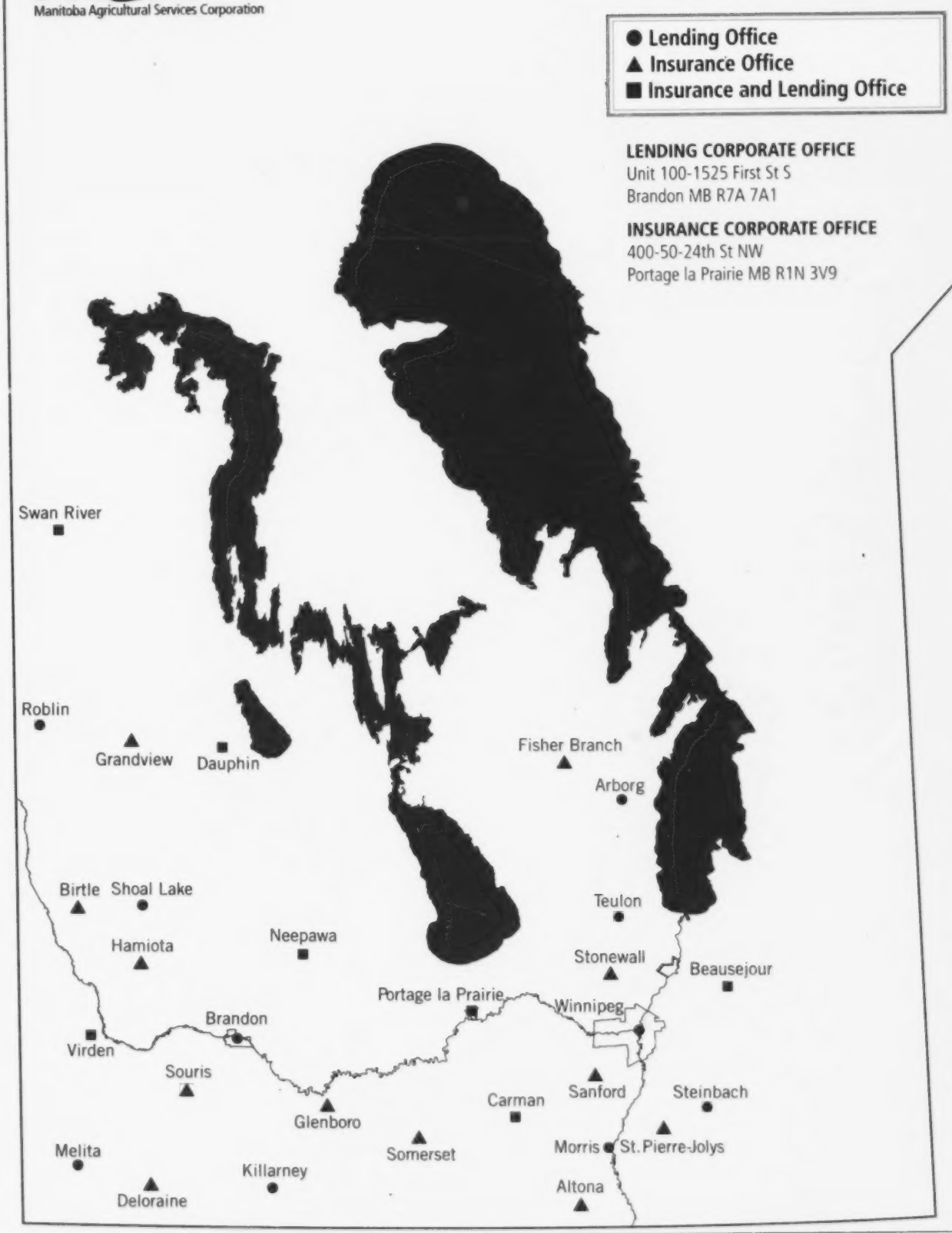
Schedule of Operations and Funds Retained

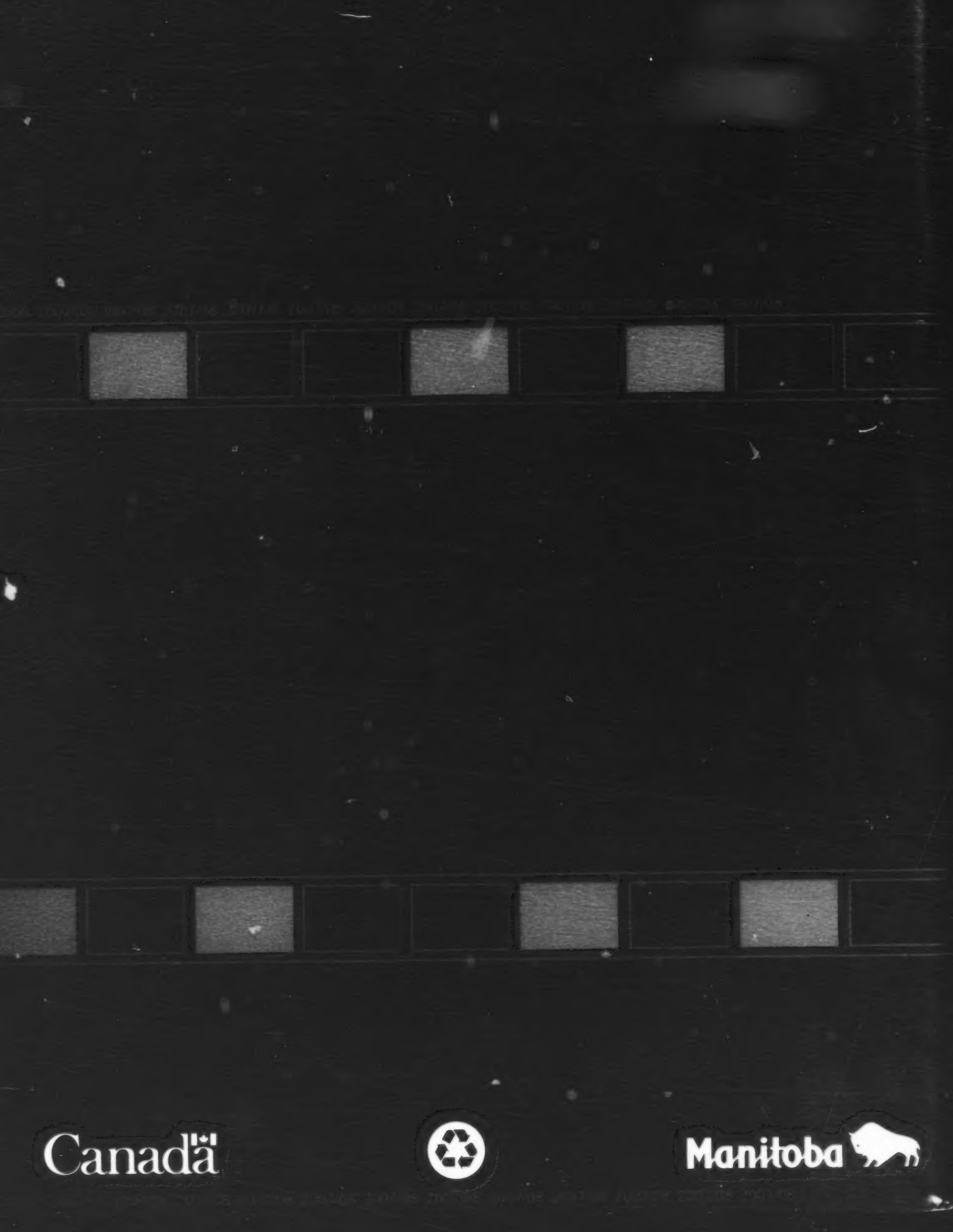
For the year ended March 31, 2008 (in thousands)

	LENDING PROGRAMS		PRODUCTION INSURANCE PROGRAM		HAIL INSURANCE PROGRAM	
	2008	2007	2008	2007	2008	2007
REVENUE:						
Insurance premiums *(Note 4(l))*						
Insured producers	$ -	$ -	$ 58,880	$ 46,602	$ 14,355	$ 12,246
Government of Canada	-	-	55,225	42,507	-	-
Province of Manitoba	-	-	36,815	28,336	-	-
	-	-	150,920	117,445	14,355	12,246
Interest from loans	20,453	20,444	-	-	-	-
Other contributions - Government of Canada	-	-	6,181	5,822	-	-
Other contributions - Province of Manitoba	4,387	5,457	4,138	3,893	-	-
Investment income	872	716	7,926	4,621	1,446	1,264
Real estate and other income	167	318	-	-	-	-
Reinsurance recoveries *(Notes 15 & 16)*	-	-	-	118	-	-
Total revenue	25,879	26,935	169,165	131,899	15,801	13,510
EXPENSES:						
Insurance indemnities and compensation payments *(Note 22)*	-	-	72,433	44,323	14,423	4,755
Reinsurance premiums *(Notes 15 & 16)*	-	-	24,210	17,237	1,022	881
Interest on borrowed funds	18,574	19,621	-	-	-	-
Bad debt and guaranteed loan loss expense *(Notes 12 & 24)*	1,146	1,443	117	242	(16)	3
Young farmer incentives	1,724	1,338	13	-	-	-
Loan interest concession *(Note 11)*	221	-	-	-	-	-
Farmland school tax rebate payments	-	-	-	-	-	-
Other program payments	-	-	-	-	-	-
Administrative expenses *(Schedule 1)*	4,662	5,086	10,306	9,715	2,503	1,712
Total expenses	26,327	27,488	107,079	71,517	17,932	7,351
Income (loss) for the year	(448)	(553)	62,086	60,382	(2,131)	6,159
Funds retained, beginning of the year	(39,316)	(38,763)	159,206	98,824	33,789	27,630
Funds retained, end of the year	$ (39,764)	$ (39,316)	$ 221,292	$ 159,206	$ 31,658	$ 33,789

WILDLIFE DAMAGE COMPENSATION PROGRAM *(Note 5)*		FARMLAND SCHOOL TAX REBATE PROGRAM *(Note 6)*		OTHER PROGRAMS *(Note 7)*		TOTAL 2008	TOTAL 2007
2008	2007	2008	2007	2008	2007		
$ -	$ -	$ -	$ -	$ -	$ -	$ 73,235	$ 58,848
-	-	-	-	-	-	55,225	42,507
-	-	-	-	-	-	36,815	28,336
-	-	-	-	-	-	165,275	129,691
-	-	-	-	-	-	20,453	20,444
1,428	1,072	-	-	-	-	7,609	6,894
952	715	29,371	26,235	16,544	1	55,392	36,301
-	-	198	181	7	-	10,449	6,782
-	-	-	-	514	722	681	1,040
-	-	-	-	-	-	-	118
2,380	1,787	29,569	26,416	17,065	723	259,859	201,270
1,973	1,416	-	-	-	-	88,829	50,494
-	-	-	-	-	-	25,232	18,118
-	-	-	-	-	-	18,574	19,621
-	-	-	-	-	-	1,247	1,688
-	-	-	-	-	-	1,737	1,338
-	-	-	-	-	-	221	-
-	-	29,199	26,034	-	-	29,199	26,034
-	-	-	-	16,528	294	16,528	294
407	371	370	382	537	429	18,785	17,695
2,380	1,787	29,569	26,416	17,065	723	200,352	135,282
-	-	-	-	-	-	59,507	65,988
-	-	-	-	-	-	153,679	87,691
$ -	$ -	$ -	$ -	$ -	$ -	$ 213,186	$ 153,679

MASC
Manitoba Agricultural Services Corporation

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